

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF LAKE STATION

LAKE COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
04/10/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Brenda Samuels	01-01-12 to 12-31-15
Mayor	Keith Soderquist	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Keith Sodequist	01-01-13 to 12-31-15
President Pro Tempore of the Common Council	Todd Lara Todd Rogers John McDaniel	01-01-13 to 12-31-13 01-01-14 to 12-31-14 01-01-15 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE CITY OF LAKE STATION, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Lake Station (City), for the period from January 1, 2013 to December 31, 2013. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

January 6, 2015

MAYOR
CITY OF LAKE STATION

MAYOR
CITY OF LAKE STATION
FEDERAL FINDINGS

***FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted several deficiencies in the internal control system of the City related to financial transactions and reporting.

1. Lack of Segregation of Duties: The City has not separated incompatible activities related to cash and investment balances, disbursements (including payroll), and the preparation of the Annual Financial Report (AFR) and financial statement. Due to the size of the Clerk-Treasurer's Office, one employee performs all functions related to payroll. The Clerk-Treasurer is solely responsible for reconciling cash and investments. The Clerk-Treasurer also prepares the AFR in Gateway without oversight, review, or approval. The financial information submitted via Gateway generates the City's financial statement.

The Clerk-Treasurer and another employee perform the vendor disbursement functions, but there is insufficient segregation of duties at times due to the needs of the office and availability of staff. Although the Board of Public Works and Safety approves all disbursements on the Accounts Payable Voucher (APV) Docket, they do not physically inspect the APVs.

The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

2. Monitoring of Controls: An evaluation of the City's system of internal control has not been conducted. The failure to monitor the internal control system places the City at risk that controls either may not be designed properly or not be operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the City has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the City to monitor and assess the quality of the system of internal control.

The Water SRF - Bond fund was used to account for the activity related to the State Revolving Loan which financed water improvements. The activity recorded in the fund is based upon loan draws made from the Indiana Finance Authority (IFA). Two draws recorded had errors related to retainage for the improvement projects. The amounts recorded were from the draws submitted to the IFA and were not reconciled to the draws as approved by the IFA. The result of these errors was that both receipts and disbursements in the records, the AFR, and the financial statement were overstated by \$379,852.

Audit adjustments were proposed, accepted by the City, and made to the financial statement included in this report.

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)

MAYOR
CITY OF LAKE STATION
FEDERAL FINDINGS
(Continued)

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 in the manner prescribed under IC 5-14-3.8-7."

***FINDING 2013-002 - INTERNAL CONTROLS AND COMPLIANCE OVER
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The SEFA was prepared by the Clerk-Treasurer and was not reviewed by another knowledgeable individual.

The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors:

1. The SEFA did not contain the Capitalization Grants for Drinking Water State Revolving Funds, which was the major program for the City. The Clerk-Treasurer's Office did not receive all the documents from the Indiana Finance Authority approving the draws made in 2013. The documents were sent to another office which did not realize that these documents contained the information needed for accurate reporting of the SEFA.

Although that office later provided many of the copies, there were still several draw approvals that could not be located and provided to the Clerk-Treasurer's Office. The missing draw approvals included Draws 5, 6, and 10 for grant DW12034501, and Draws 1 through 5 for grant DW12034502. These were obtained for audit after requested from the granting agency.

2. The Equitable Sharing Program was also omitted from the SEFA.

Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

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)

MAYOR
CITY OF LAKE STATION
FEDERAL FINDINGS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states in part:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available."

***FINDING 2013-003 - INTERNAL CONTROL OVER CAPITALIZATION
GRANTS FOR DRINKING WATER STATE REVOLVING FUNDS***

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Drinking Water State Revolving Funds
CFDA Number: 66.468
Federal Award Number: DW12034501 and DW12034502
Pass-Through Entity: Indiana Finance Authority

Management of the City has not established an effective internal control system, which would include segregation of duties related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs, and Reporting compliance requirements. This would also include monitoring activities of paid consultants, related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs, Davis-Bacon Act, and Suspension and Debarment compliance requirements, as follows:

1. The consultant engineering firm reviews all contractor requests for payment and submits them to the City for payment. The firm also submits invoices to the City for payment for services rendered. Upon receipt of the invoices and requests from the Mayor's Office, the Clerk-Treasurer prepares the Accounts Payable Vouchers (APV) and the drawdown requests to be submitted to the Indiana Finance Authority (IFA) for State Revolving Fund (SRF) payment.

MAYOR
CITY OF LAKE STATION
FEDERAL FINDINGS
(Continued)

The drawdowns prepared by the Clerk-Treasurer, for submission to the IFA for payment, are not reviewed by anyone else at the City. Although the Mayor signs the drawdown requests as required, the requests are not reviewed for compliance with reporting requirements.

2. The consulting engineering firm inserted Suspension and Debarment compliance language into the bid specifications for the construction projects. The City relied upon the consultants engaged by the IFA to ensure that Suspension and Debarment compliance requirements were met for other vendors paid from the SRF funds. The City also relied upon these same consultants to ensure that Davis-Bacon Act compliance requirements were met for construction payments paid from the SRF. An oversight or review process has not been established.
3. The APVs prepared by the Clerk-Treasurer are approved by the Board of Public Works and Safety (Board), based upon an APV register submitted at a meeting. The actual APVs with the attached invoices are not individually reviewed by the Board. No documentation was noted that the APVs were reviewed for compliance with Activities Allowed or Unallowed, and Allowable Costs compliance requirements.

The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis.

In order to have an effective internal control system, it is important to have proper segregation of duties, and to ensure that the activities of paid consultants are monitored. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity. Additionally, the City did not have a system in place to ensure the work product provided by consultants relates to Activities Allowed or Unallowed, Allowable Costs, Davis-Bacon Act, Suspension and Debarment, and Reporting requirements was adequate, complete, and accurate.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above. We also recommended that the City's management establish controls to effectively monitor consultants to ensure compliance related to the grant agreement and compliance requirements that have a direct and material effect on the program.



1969 Central Ave. Lake Station, IN 46405

CORRECTIVE ACTION PLAN

FINDING 2013-001

Contact Person Responsible for Corrective Action: Brenda Samuels, Clerk-Treasurer
Contact Phone Number: (219) 962-3111, ext. 318

Description of Corrective Action Plan:


Lack of Segregation of Duties

The City has not separated incompatible activities due to the size of the Clerk-Treasurer's Office and the availability of staff. The Clerk-Treasurer's Office will review the segregation of duties and separate the approval function, the accounting/reconciliation function, and the asset custody function when possible. When these functions cannot be separated, a detailed supervisory review of related activities will be required.

Monitoring of Controls

The Clerk-Treasurer's Office will design, implement and monitor a system of internal controls. The Clerk-Treasurer's Office implement controls over the receipting, disbursing, recording and accounting for financial activities. When these controls cannot be implemented, a detailed supervisory review of related activities will be required.

Anticipated Completion Date: March 30, 2015


(Signature)

Clerk Treasurer
(Title)

01-14-15
(Date)


(Signature)

Mayor
(Title)

1/14/15
(Date)


(Signature)

Council President
(Title)

1/14/15
(Date)



1969 Central Ave. Lake Station, IN 46405

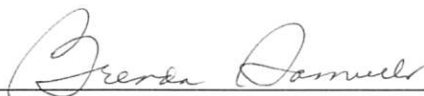
CORRECTIVE ACTION PLAN

FINDING 2013-002

Contact Person Responsible for Corrective Action: Brenda Samuels, Clerk-Treasurer
Contact Phone Number: (219) 962-3111, ext. 318


Description of Corrective Action Plan: The Clerk-Treasurer's Office will implement a procedure whereby the Police Department staff will reconcile with the Clerk-Treasurer's Office staff grant balances, payroll and general ledger expenditures, and drawdown receipt reports to assure that reports submitted are accurate, and has proper documentation to ensure a proper system of internal controls on the Schedule of Expenditures of Federal Awards (SEFA).

Anticipated Completion Date: June 30, 2015


(Signature)

Clerk Treasurer
(Title)

01-14-15
(Date)


(Signature)

Mayor
(Title)

1/14/15
(Date)


(Signature)

Council President
(Title)

1/14/15
(Date)



1969 Central Ave. Lake Station, IN 46405


CORRECTIVE ACTION PLAN

FINDING 2013-003

Contact Person Responsible for Corrective Action: Brenda Samuels, Clerk-Treasurer
Contact Phone Number: (219) 962-3111, ext. 318

Description of Corrective Action Plan: The Clerk-Treasurer will establish a system of internal controls, including segregation of duties related to monitoring compliance with the federal grant agreement's requirements, including activities that are allowed or not allowed, allowable costs, and documenting and reporting compliance with the requirements. The Clerk-Treasurer will also review the accounts payable vouchers and monitor and document the monitoring of consultant activities to ensure compliance with all requirements of the grant agreement, including, but not limited to Davis-Bacon requirements.

Anticipated Completion Date: April 30, 2015


(Signature)

Clerk Treasurer
(Title)

01-14-15
(Date)


(Signature)

Mayor
(Title)

1/14/15
(Date)


(Signature)

Council President
(Title)

1/14/15
(Date)

MAYOR
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS

FINANCIAL CONCERNS

Overdrawn Cash Balances

The financial statement included the following funds with overdrawn cash balances at December 31, 2013:

Fund	Amount Overdrawn
General Fund	\$ 2,017,131
Refuse Department	49,670
Park and Recreation Fund	35,334
Municipal Complex	211,288
Water Utility Operating	<u>35,755</u>
Total	<u>\$ 2,349,178</u>

As noted above, the General Fund was overdrawn by \$2,017,131 at December 31, 2013. It should also be noted that the City's General Fund cash balance has been consistently overdrawn at December 31 of each year since 2007 as follows:

Year Ended December 31	Ending Cash Balance
2013	\$ (2,017,131)
2012	(1,957,818)
2011	(1,683,903)
2010	(1,850,962)
2009	(1,995,148)
2008	(1,149,332)
2007	(548,698)

The General Fund's cash position at December 31, 2013, would have been a larger overdrawn balance except for the interfund loans it received from various funds as described below:

This is the second year for which the Water Utility Operating fund had an overdrawn cash balance at December 31. The overdrawn balance was due to a temporary interfund loan of \$50,000 provided to the General Fund in December 2013 and not repaid until 2014.

The Municipal Complex fund overdrawn cash balance was due to a temporary interfund loan of \$250,000 given to the General Fund in December 2013 and not repaid until 2014.

The City's cash balance per the financial statement at December 31, 2013 was \$1,957,360. However, certain funds are not available for City use. The Court funds do not run through the City's accounting system and are not available for City disbursements. Debt service and debt

MAYOR
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

proceed funds are restricted by debt covenants and agreements to be spent for debt service or the purpose for which the debt was issued only. After reducing the reported ending balance for Court, debt service and debt proceed funds, the City's net ending cash balance was (\$16,355).

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)

Customer Meter Deposits - Water Utility

The Water Utility requires a customer meter deposit on all accounts. The meter deposits are to be recorded in the Water Deposit fund. A Guarantee Deposit register is to be maintained by individual customer of all meter deposits on hand. The Guarantee Deposit Register should be reconciled monthly with the cash balance in the Water Deposit fund.

Prior to 2011, all meter deposits were maintained in the Water Utility Operating fund. In 2011, the Water Utility created a Water Deposit fund. All meter deposits collected in 2011 through 2013 were recorded in the Water Deposit fund; however, no transfers were made from the Water Utility Operating fund to account for collections prior to 2011. Thus, the combined cash balance of the Water Utility Operating and Water Deposit funds must be at least equal to, if not greater than, the balance of the Guarantee Deposit Register at any given time.

A detailed deposit register as of December 31, 2013, had a balance of \$181,531. The Water Utility Operating and Water Deposit funds' cash balances at December 31, 2013, were only (\$35,755) and \$68,270, respectively. Refunds of customer deposits for 2011 through 2013 are being paid from the Water Utility Operating fund.

The Water Deposit fund shared a bank account with the Water Utility Operating fund. Due to the overdrawn operating fund cash balance, customer deposits were used to fund operations.

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 records presented for audit indicated the following expenditures in excess of budgeted appropriations for 2013:

<u>Fund</u>	<u>Excess Amount Expended</u>
General Fund	\$ 1,665,000
Park GO	23,276
Park Non-Reverting Fund	16,705

MAYOR
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

Other issues noted related to appropriations:

1. Review of the appropriation ledger determined that the budget as recorded exceeded the budget as approved by the Indiana Department of Local Government and Finance (DLGF). The budget recorded agreed to the budget approved by the Common Council.
2. Additional review of the appropriation ledger determined that the funds which issued Tax Anticipation Warrants (loans) did not record the interest on the loan against the budget. Although the repayment of the principal does not require an appropriation, the interest was recorded with the principal as unappropriated.
3. Many of the funds of the City were required to be locally appropriated by the Common Council. The Common Council adopted Ordinance 2013-08 on September 19, 2013, to budget these funds for the calendar year 2013. Disbursements were made from these funds prior to adoption of the budget.

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."

Indiana Code 6-1.1-18-10 states:

"(a) If the proper officers of a political subdivision make an appropriation for an item which exceeds the amount which they are permitted to appropriate under this chapter, they are guilty of malfeasance in office and are liable to the political subdivision in an amount equal to the sum of one hundred and twenty-five percent of the excess so appropriated and court cost.

(b) Upon the relation of a taxpayer who owns property which is subject to taxation by the political subdivision, the appropriate prosecuting attorney shall initiate an action in the name of this state to recover the amount for which the proper officers of the political subdivision are liable under this section."

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 therefore unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Water Bond Ordinance

The Common Council approved Ordinance 2012-20 on October 25, 2012, concerning the issuance of revenue bonds for the construction and improvements to the Water Utility of the City. Two sets of revenue bonds were issued for this project; one in December 2012, and the other in 2013. Both were sold to the Indiana Finance Authority through the State Revolving Loan Fund.

The bond ordinance has several sections regarding the treatment and use of income and revenues of the Waterworks. However, we noted that the City did not comply with several bond ordinance requirements for the treatment and use of income and revenues of the Utility.

Ordinance 2012-20, Section 10, states in part: ". . . a sufficient amount of the revenues of the System so that the balance in the Operation and Maintenance Fund shall be sufficient to pay the expenses of operation, repair and maintenance of the System for the then next succeeding two (2) calendar months."

MAYOR
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

The financial consultant for the bond issue, in a letter to the City, estimated that the operating fund should have a balance of \$141,200 each month in 2013. As noted in the following table, the City only met that requirement for one month in 2013.

	End of Month Cash Balance	Monthly Required Amount	Difference Underfunded (Requirement Met)
January	\$ 141,013	\$ 141,200	\$ 187
February	143,780	141,200	(2,580)
March	14,347	141,200	126,853
April	(16,973)	141,200	158,173
May	(36,654)	141,200	177,854
June	71,285	141,200	69,915
July	(3,447)	141,200	144,647
August	9,521	141,200	131,679
September	39,208	141,200	101,992
October	63,880	141,200	77,320
November	(17,449)	141,200	158,649
December	(35,755)	141,200	176,955

Ordinance 2012-20, Section 10, states in part:

"The moneys credited to the Operation and Maintenance Fund shall be used for the payment of the reasonable and proper operation, repair and maintenance expenses of the System on a day-to-day basis, but none of the monies in such fund shall be used for transfers for payments-in-lieu of property taxes, depreciation, replacements or improvements . . ."

Ordinance 2012-20, Section 12, states in part:

"Improvement Fund - After meeting the requirements of the Operation and Maintenance Fund and the Sinking Fund set forth above, the City shall transfer to the Improvement Fund from the Revenue Fund on or before the last day of each calendar month a sufficient amount of Net Revenues to be used for transfers for payments-in-lieu of property taxes, improvements to, replacements of, additions to and extensions of the System . . ."

A transfer of \$225,000 was made from the Water Utility Operating fund to the City's General Fund for payment in lieu of taxes (PILOT). The City did not have an improvement fund. Additionally, there was only one month in 2013 where any revenues could have been transferred to an improvement fund for PILOT and that was only in the amount of \$2,580. Therefore the Utility made PILOT transfers of \$222,420 to the City's General Fund when there were insufficient revenues to meet the funding requirements of the bond ordinance.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

MAYOR
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

Fund Sources and Uses

The following issues with the use of funds were noted:

1. A portion of Fire Department employee benefits (FICA, Unemployment, Medicare) totaling \$3,924, payable from the General Fund, were reallocated and recorded in the Motor Vehicle Highway and Sewage funds.
2. The Stormwater MS4 fund paid the insurance deductible which was related to former City employees. This was unrelated to the purpose or operations of the Stormwater MS4 fund.
3. The primary funds that paid for the various liability insurance coverage were Sewage (\$93,900), Water Utility Operating (\$35,000), Motor Vehicle Highway (\$59,587), General Fund (\$28,478) and Local Road and Street (LRS) (\$18,000). Other funds paid smaller amounts. The liability insurance costs for the law enforcement coverage itself exceeded what was paid by the General Fund. There was no documentation to support the allocation of the insurance to any of the funds. Additionally, the payment for the insurance from the LRS fund did not comply with the statutory uses for the fund as set forth in Indiana Code 8-14-2-5.
4. The City incurred finance charges to finance the payment of the insurance coverage, due to the insurance broker having to go outside the standard market to obtain coverage. This change required the City to pay the insurance differently than it had in the past, which required it to finance the payments.
5. The third deputy in the Clerk-Treasurer's Office was paid from General Fund until April 2013. One pay was then charged to the Sewage fund and all remaining payrolls were charged to the Water Utility Operating fund. The employee performs duties related to all City funds, not just the Water Utility. No cost allocation plan was developed.
6. Gas and electric invoices for City Hall, Fire/Ambulance, Street Lighting, and other City buildings were paid from the Sewage and Water Utility Operating funds in 2013. These bills, totaling \$117,342, would have normally been paid from the General Fund.
7. Various disbursements were made for "promotion of business" from the Sewage, Water Utility Operating, Refuse Department, and Stormwater MS4 funds. These disbursements included purchase of hams for food pantry and employees, candy for 4th of July parade, food for City movie nights and September Fest. Utility and user charge funds were used for purchases not related to the operation of the Utilities.

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)

Indiana Code 8-14-2-5 states:

"Money from the local road and street account shall be used exclusively by cities, towns, and counties for:

- (1) engineering, land acquisition, construction, resurfacing, maintenance, restoration, or rehabilitation of both local and arterial road and street systems;

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(Continued)

- (2) the payment of principal and interest on bonds sold primarily to finance road, street, or thoroughfare projects;
- (3) any local costs required to undertake a recreational or reservoir road project under IC 8-23-5; or
- (4) the purchase, rental or repair of highway equipment."

It appears legislative intent is for local road and street account distributions to be used only for direct expenses incurred in the construction, reconstruction, or maintenance of arterial and local roads and streets in cities and towns. This would prohibit the use of such funds for building buildings or for such indirect costs as administrative salaries or supplies, goods, or materials not used directly for one of the aforementioned purposes. (Cities and Towns Bulletin And Uniform Compliance Guidelines, September 2011)

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."

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 for Cities and Towns, Chapter 7)

Indiana Code 36-9-25-11(a) states in part:

"In connection with its duties, the board may fix fees for the treatment and disposal of sewage and other waste discharged into the sewerage system, collect the fees, and establish and enforce rules governing the furnishing of and payment for sewage treatment and disposal service. The fees must be just and equitable and shall be paid by any user of the sewage works and . . . the owner of every lot, parcel of real property, or building that is connected with and uses the sewage works of the district by or through any part of the sewerage system."

Subsequent Events - Riverboat Fund Transfer

The Council approved Resolution 2014-10 on August 21, 2014. Based upon this resolution, the City transferred \$420,000 from the Riverboat - Infrastructure fund to the General Fund. The transfer to the General Fund did not comply with the City's Interlocal agreement for use of the Riverboat - Infrastructure fund.

The City receives Riverboat distributions from Lake County based upon an Interlocal cooperation agreement that the City agreed to in 1997. The Interlocal agreement states in part:

- "6. Uses of Money. The Municipalities agree to restrict the use of their share of the proceeds for the purposes of Infrastructure improvements. For the purpose of this Interlocal agreement, Infrastructure improvements shall include the following provisions as set forth in I.C. 8-14-1 et seq: . . ."

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)

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(Continued)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Impact on Independent Auditor's Report

An explanatory paragraph was added to the Independent Auditor's Report which states the assumption that the City will continue as a going concern. City officials should continue to assess the financial situation of the City to ensure a sustainable resolution to the material deficit cash balances has been determined.

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)

CREDIT CARDS

Resolution No. 2011-13 "Resolution of the Board of Works of the City of Lake Station, Indiana amending the Resolution Authorizing the Use of City Credit Cards, Resolution No. 2004-08" was passed by the Board of Public Works and Safety on September 20, 2011. The following are from the resolution:

- "3. That the city credit card shall only be used for City expenditures, including seminars, food and lodging, City emergencies allowed by State Statute or City Ordinance, and expenditures of the promotional funds pursuant to City Ordinance."
- "5. That each expenditure paid by the credit card must reflect a credit line for the purchase, and a receipt for the expenditure shall be delivered by the purchaser to the Clerk-Treasurer."
- "6. That the expenditure reflected on the credit card statement shall not be paid by the Clerk-Treasurer unless the receipt for the purchase is delivered to the Clerk by the purchaser. In the event the purchaser does not deliver the receipt for the purchase, the purchaser shall be personally liable for any late payment fees."

Our examination of forty-three charges made using the City credit card, for the period June 27, 2013 through December 23, 2013, noted that:

- 1. Twelve of the charges totaling \$1,027 for meals did not contain adequate itemization.
- 2. Six of the charges were for meals while the employee(s) were in nontravel status.

Resolution 2011-13 does not specifically address the allowability of local meals being charged to City funds.

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(Continued)

Our examination of these credit card charges also found that six charges were disbursed from inappropriate funds. Examples include:

1. School supplies were disbursed from the Water Utility Operating, Sewage, and Stormwater MS4 funds.
2. Gift cards acquired for movie night were disbursed from Sewage funds.
3. A Christmas planning lunch meeting was disbursed from the Sewage fund.

As of the credit card statement closing date of January 26, 2014, the City had an outstanding balance on their credit card account that consisted of: \$83.04 in interest, \$75.60 in late fees, and \$47.23 of outstanding charges from August 2013 (net of credits).

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.
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)

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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 for Cities and Towns, Chapter 7)

PENALTIES, INTEREST, AND OTHER CHARGES

The audit report for calendar year 2009, Report B37677, contained a comment that the City had incurred penalties and interest of \$635.94. The audit report for calendar year 2010, Report B39644, also contained a comment the City had incurred late fees, finance and interest charges, and over limit fees of \$241.86. Report B39644 also requested the Clerk-Treasurer reimburse the City \$241.86, which was done on September 21, 2011, and noted in Report B39644.

The City reimbursed the Clerk-Treasurer \$241.86 on July 3, 2012, with Accounts Payable Voucher 21650 and Check 16950. The reimbursement was for the payment the Clerk-Treasurer had made on September 21, 2011, to the City, for the fees and interest charges addressed in the 2010 report. Review of the June 21, 2012 Common Council meeting noted the Mayor stating the following: "there was no derelict of duty from our Clerk-Treasurer. Brenda Samuels paid those out of her own pocket until the City could reimburse her. The amount was for \$241.86. I entertain a motion to reimburse Brenda." The Common Council passed the motion 7-0 to reimburse the Clerk-Treasurer.

The Clerk-Treasurer repaid the City \$241.86 on December 30, 2014, City Receipt Number 67173.

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.

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)

NONGOVERNMENTAL EXPENSES AND DONATIONS

The City spent \$57,433 in 2013 from the promotion budget of the City, which was paid from various funds. This included \$20,068 paid from utility and user charge funds including the Water Utility Operating, Sewage, Refuse Department, and Stormwater MS4 funds.

Some of the promotion (\$11,192) of the City expenditures in 2013 included:

1. Donations to churches and other organizations such as Building Together, a children's cancer foundation.
2. \$5,278 spent on turkeys and hams for "seniors, food pantry and employees" according to the description on an Accounts Payable Voucher.

The Annual Financial Report filed by the City for 2013 did not report the financial assistance (donations) made by the City to nongovernmental entities as required.

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Other disbursements from the utility and user charge funds unrelated to the operations of the funds included "sponsorship" of City baseball program totaling \$5,400, candy for 4th of July parade totaling \$1,113, and \$7,550 for items for September Fest.

Every effort should be made by the governmental unit to avoid unreasonable or excessive costs. (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 for Cities and Towns, Chapter 7)

Governmental funds should not be donated or given to other organizations, individuals, or governmental units unless specifically authorized by statute. IC 36-10-2-4 and 5 allow cities and towns to establish, aid, maintain, and operate libraries, museums, cultural historical and scientific facilities and programs, community service facilities and programs, neighborhood centers, community centers, civic centers, convention centers, auditorium arenas, and stadiums. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 5-11-1-4(a) 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 in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

LOANS BETWEEN FUNDS

A temporary loan was made between funds in 2013 without the approval of the Common Council, the fiscal body of the City. The temporary loan of \$200,000 was made to the General Fund from the Municipal Complex fund on May 3, 2013. Resolution 2013-03 authorizing the loan was approved by the Board of Public Works and Safety on May 7, 2013, after the temporary loan had been made.

On October 2, 2013, the Common Council approved temporary loans to the General Fund with resolution 2013-07. The Municipal Complex and the Water Utility Operating funds were overdrawn by \$211,288 and \$35,755, respectively, at December 31, 2013, due to the loans made to the General Fund and not repaid by year end.

Indiana Code 36-1-8-4, concerning temporary loans, states in part:

"(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 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 fund that is in need of money for cash flow purposes.

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- (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.
- (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."

PREAPPROVED PAYMENTS OF CLAIMS

The Board of Public Works and Safety (Board) adopted Resolution 2013-04 on June 4, 2013. This resolution detailed what items may be paid by the Clerk-Treasurer prior to approval by the Board. Prior to adopting Resolution 2013-04, the Board had adopted Resolutions 2013-01 and 2012-01 in January of 2013 and 2012 to grant the Clerk-Treasurer authorization to pre-pay certain claims. The Clerk-Treasurer had relied upon these resolutions to make payments of claims prior to Board approval. Indiana statute however, requires an ordinance to be adopted by the Common Council to permit payment of claims prior to Board approval.

Indiana Code 36-4-8-14 states:

"(a) A city legislative body may adopt an ordinance allowing money to be disbursed for lawful city purposes under this section.

(b) Notwithstanding IC 5-11-10, with the prior written approval of the board having jurisdiction over the allowance of claims, the city fiscal officer may make claim payments in advance of board allowance for the following kinds of expenses if the city legislative body has adopted an ordinance under subsection (a):

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- (1) Property or services purchased or leased from the United States government, its agencies, or its political subdivisions.
 - (2) License or permit fees.
 - (3) Insurance premiums.
 - (4) Utility payments or utility connection charges.
 - (5) General grant programs where advance funding is not prohibited and the contracting party posts sufficient security to cover the amount advanced.
 - (6) Grants of state funds authorized by statute.
 - (7) Maintenance or service agreements.
 - (8) Leases or rental agreements.
 - (9) Bond or coupon payments.
 - (10) Payroll.
 - (11) State, federal, or county taxes.
 - (12) Expenses that must be paid because of emergency circumstances.
 - (13) Expenses described in an ordinance.
- (c) Each payment of expenses under this section must be supported by a fully itemized invoice or bill and certification by the fiscal officer.
- (d) The city legislative body or the city board having jurisdiction over the allowance of the claim shall review and allow the claim at its next regular or special meeting following the preapproved payment of the expense."

NONUSE OF PURCHASE ORDERS

The City does not utilize purchase orders to encumber/reserve appropriations when purchases are initiated. The City had previously implemented purchase orders but discontinued use of the forms as the City Departments were using the form after the purchase was made instead of beforehand. The lack of use of purchase orders has contributed to the City overspending both appropriations and cash for various funds.

Indiana Code 5-22-18-5(b) states in part:

"Within thirty (30) days after the acceptance of an offer, the purchasing agent shall deliver in person or by first class mail to the successful offeror the original of each purchase order or lease, retain a copy for the purchasing agent's records, and file a copy for public record and inspection as follows:

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- (1) When a purchase or lease is made for a county or municipality, the copy of the purchase order or lease must be filed with the fiscal officer of the unit."

The purchase order (General Form No. 98) is used in conjunction with City and Town Form No. 209, Ledger of Appropriations, Encumbrances, Disbursements and Balances. Provision is made for certification of an unobligated balance being available in the appropriation from which purchase is to be made, in compliance with the law.

This will require the encumbering of appropriations for each order as it is issued.

It is necessary that all orders pass through the hands of the Clerk-Treasurer, who is responsible for appropriation accounting.

The original will be delivered to the vendor, the duplicate copy filed with the purchasing authority and the triplicate copy filed with the Clerk-Treasurer. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 5)

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)

COMPENSATION AND SALARY ORDINANCE

The Mayor authorized the payment of a position to be split between the Motor Vehicle Highway and Stormwater MS4 funds. The salary amount paid from the Stormwater MS4 fund was not authorized by the Salary Ordinance.

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)

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)

CAPITAL ASSETS

The City has not properly maintained a complete inventory of capital assets owned as follows:

1. As stated in five prior reports, infrastructure, such as roads, pumping stations, water and wastewater distribution lines, are not included in the capital asset records.
2. Several donated properties accepted by the Board of Public Works and Safety in 2012 were not posted to the capital asset records or were posted with no value amount.
3. The acquisition or disposal of two vehicles was not recorded.

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4. Engineering costs related to the water improvement project were not reflected as construction in progress.
5. The Common Council adopted a capitalization policy with Ordinance 2012-21 on October 11, 2012. The capitalization policy has a threshold to record assets with a purchase value of \$5,000 or more, and/or an anticipated life of three or more years if certain conditions are met. The ordinance stated that it repealed the previous capitalization policy. However, the capital asset record was not updated to reflect the revised policy and contained numerous assets which did not meet the revised capitalization policy requirements.

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 applicable 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)

The records of each governmental unit should reflect land owned, its location, its acquisition date and the cost (purchase price). If the purchase price is not available, appraised value may be used. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

IMPROPER USE OF COURT FUNDS

The City established five funds which are not in compliance with Indiana Code 33-37-8-3, which indicates only one City User Fee fund should be established for the receipt and disbursement of these fees collected by the City Court. These cash balances, receipts, and disbursements of these funds for 2013 are:

Fund Name	Beginning Cash Balance	Receipt	Disbursement	Ending Cash Balance
Alcohol Program Monitor	\$ 1,282	\$ 2,900	\$ 3,235	\$ 947
Deferral - Police	-	30,400	20,153	10,247
Deferral - Ordinance Violation	-	30,493	20,200	10,293
User Fee LS Continuing Education	3,751	2,526	-	6,277
Deferral - Infraction	-	27,840	15,305	12,535

All disbursements of the Deferral Police, Deferral - Ordinance Violation and Deferral - Infraction funds were transferred to the General Fund in October 2013. All of the disbursements of the Alcohol Program Monitor fund were for payroll related costs.

A similar comment appeared in several prior reports.

Indiana Code 33-37-8-3 states:

"(a) A city or town user fee fund is established in each city or town having a city or town court for the purpose of supplementing the cost of various program services. The city or town fund is administered by the fiscal officer of the city or town.

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(b) The city or town fund consists of the following fees collected by a clerk under this article:

- (1) The pretrial diversion program fee.
- (2) The alcohol and drug services fee.
- (3) The law enforcement continuing education program fee.
- (4) The deferral program fee.
- (5) The problem solving court fee."

Indiana Code 33-37-8-4 states:

"(a) Except as provided in subsection (b), upon receipt of monthly claims submitted on oath to the fiscal body by a program listed in section 3(b) of this chapter, the fiscal body of the city or town shall appropriate from the city or town fund to the program the amount collected for the program fee under IC 33-37-5.

(b) Funds derived from a deferral program or a pretrial diversion program may be disbursed only by the adoption of an ordinance appropriating the funds for one (1) or more of the following purposes:

- (1) Personnel expenses related to the operation of the program.
- (2) Special training for:
 - (A) a prosecuting attorney;
 - (B) a deputy prosecuting attorney;
 - (C) support staff for a prosecuting attorney or deputy prosecuting attorney; or
 - (D) a law enforcement officer.
- (3) Employment of a deputy prosecutor or prosecutorial support staff.
- (4) Victim assistance.
- (5) Electronic legal research.
- (6) Office equipment, including computers, computer software, communication devices, office machinery, furnishings, and office supplies.
- (7) Expenses of a criminal investigation and prosecution.
- (8) An activity or program operated by the prosecuting attorney that is intended to reduce or prevent criminal activity, including:

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- (A) substance abuse;
- (B) child abuse;
- (C) domestic violence;
- (D) operating while intoxicated; and
- (E) juvenile delinquency.

- (9) Any other purpose that benefits the office of the prosecuting attorney or law enforcement and that is agreed upon by the county fiscal body and the prosecuting attorney.

(c) Funds described in subsection (b) may be used only in accordance with guidelines adopted by the prosecuting attorneys council under IC 33-39-8-5."

UTILITY RECEIPTS TAX

The Water Utility did not properly calculate the amount of Utility Receipts Tax to remit to the Indiana Department of Revenue for the calendar year 2013. The Water Utility included sales tax in their determination of total taxable receipts, but excluded receipt types such as penalties, hydrant rental fees, and reconnect fees.

These errors caused the Water Utility to overpay their Utility Receipt tax for 2013. A similar comment has appeared in prior reports.

Generally, retail receipts from all utility services consumed within Indiana are subject to the utility receipts tax regardless of the point of generation or transmission across state lines. Receipts from the provision of mobile telecommunication service are subject to utility receipts tax to the extent that the receipts are sourced to Indiana pursuant to Indiana Code 6-8.1-15. However, gross receipts received by a political subdivision for sewage and sewage service are not subject to the tax.

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 6-2.3-3-4 states:

"(a) Gross receipts do not include collections by a taxpayer of a tax, fee, or surcharge imposed by a state, a political subdivision, or the United States if:

- (1) the tax, fee, or surcharge is imposed solely on the sale at retail of utility services;
- (2) the tax, fee, or surcharge is remitted to the appropriate taxing authority; and
- (3) the taxpayer collects the tax, fee, or surcharge separately as an addition to the price of the utility service sold.

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- (b) Gross receipts do not include collections by a taxpayer of a tax, fee, or surcharge that is:
- (1) approved by the Federal Communications Commission or the utility regulatory commission; and
 - (2) stated separately as an addition to the price of telecommunication services sold at retail."

FEES

Fees charged for booth rentals and beverages sold at September Fest, collected by the Mayor's Office, were not approved by the Park Board or the Common Council. The fees which were readily available from the City's ledgers totaled \$4,811.

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)

SEPTEMBER FEST

1. Tickets were issued for the purchase of beverages. A ticket sales report was not completed indicating the number of tickets sold and the amount of collections. There was no reconciliation of the actual collections to the tickets sold.
2. Collections for beverages of \$2,711 were remitted to the Clerk-Treasurer on September 16, 2013, 15 days after the end of the event.
3. A written contract was not entered into between the City and the operator of the carnival rides for September Fest. The City did not receive any commission on the revenues generated from the operations of the carnival rides. The expense bore by the City for electrical costs cannot be determined.

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)

IC 5-13-6-1(d) requires cities and towns to deposit all funds not later than the next 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 for Cities and Towns, Chapter 7)

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Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit.

The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payers. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

Assets of the governmental unit may not be used in a manner unrelated to the functions and purposes of the governmental unit. (Accounting and Uniform Compliance Guidelines 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 for Cities and Towns, Chapter 7)



1969 Central Ave. Lake Station, IN 46405

January 28, 2015

State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, IN 46204-2765
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OFFICIAL RESPONSE FOR 2013

A) Overdrawn Cash Balances

Since we took office in 2008 many of the City Funds have a negative balance, with the General Fund taking the brunt of it. We found that many payables weren't even in the system at the time as they were found in desk drawers, on file cabinets, etc. We hired Umbaugh and Associates to help us come up with a plan to reduce this deficit and eliminating it may take a year or two more with our implemented plan. Since the City doesn't receive it's money from the County until usually the last day of the year, there is no way to know in advance how much money we will have and, knowing we must pay all previous loans (TAW's) taken in the prior year....and all Bonds, all due by December 31st, requires the City to use interfund loans to temporarily cover the cash shortfalls at the end of the year.

B) Customer Meter Deposits - Water Utility

Once we were advised in 2011 that the meter deposits should be kept in a separate fund from the water utility operating fund, we created said fund and started depositing all deposits to this fund. Refunds were still paid from the Operating Fund to gain a substantial balance in the new Meter Deposit Fund until we could research and verify what the balance in the Meter Deposit Fund should be. Now

that amount has been established, we will implement a plan in 2015 to start transferring the funds from the Operating Fund...to the Meter Deposit Fund until we have the correct balance in that Fund.

C) Appropriations

- 1) Due to the negative balance in the General Fund, the DLGF wouldn't approve our budget/appropriation, but paying our wages and bills was the only way to keep the City operating.
- 2) Being made aware there needs to be an appropriation line for the interest on the TAW loans, we will implement this in our next budget.
- 3) We were unaware this transfer was a violation and will not do so in the future.
- 4) Prior to us taking office in 2008, many funds were not in the budget submitted to DLGF. Our city attorney recommended we do this, which happened to fall at year end.

D) Water Bond Ordinance

We will not make any payments to the City for in lieu of taxes unless this requirement is met.

E) Fund Sources and Uses

- 1-5) Documentation was not requested and in fact, we did a percentage shared cost for all related departments that is why employees were shifted to different departments as they shared cost.

F) Subsequent Events - Riverboat Fund Transfer

Based on the confirmation from our financial consultant, Cender & Company, we feel the transfer was proper.

G) Impact on Independent Auditor's Report

The City has been working with financial consultants since 2008, slowly reducing this deficit.

H) Credit Cards

Those employees authorized to have a City credit card will be informed to make sure they turn in more detailed receipts, they can't use the card for meals unless travel related, and to make sure they use the proper appropriations. The Clerk Treasurers office will follow up on the documentation presented before payment.

I) Penalties, Interest, and other Charges

As noted this in the report, all amounts due have been paid.

J) Nongovernmental Expenses and Donations

Being made aware, all donations for 2014 and moving forward, will be in the Gateway system. Moving forward in 2015, no donations will be paid from the Utility Funds, nor any expenses not directly related to the purpose of each Fund.

K) Loan Between Funds

This was only done due to an emergency situation.

L) Preapproved payments of Claims

Being made aware an Ordinance through the Council is necessary instead of the Resolution of the BOW. An ordinance has already been submitted to the Council for approval.

M) Nonuse of Purchase Orders

The nonuse of purchase orders did not contribute to overspending. Not sure how to answer this. Exceeding the appropriations was due to the carryover of old cash deficits from the previous administration as discussed above. Beginning in 2014, the City no longer exceeds the appropriations approved by the DLGF and the Clerk-Treasurer's office will not approve payment of any expenses that would cause that to occur.

N) Capital Assets

- 1) Infrastructure will be assessed and included in the assets when the city can financially afford to do so.
- 2) The detail for these properties has already been researched and to the capital assets.
- 3) These vehicles now been added to the capital assets list.
- 4) We were unaware we needed to keep a "construction in progress" in our capital asset list, assuming we'd show the project as a whole upon completion. We have now added to our asset list, through 2014.
- 5) We have now deleted all assets under \$5,000.00 per Ordinance 2012-21

O) Improper use of Court Funds

We are currently working with the city attorney to take the proper steps to combine the three Deferral funds, and process expenditures per law.

P) Utility Receipts Tax

We will notify the clerk responsible for the calculation in the Water Utility so that future calculations are correct.

Q) Prescribed Forms - Receipts

Being made aware of the detail, we have contacted all departments referenced and informed them of the proper manner on December 18, 2014.

R) Receipt Issuance and Deposit

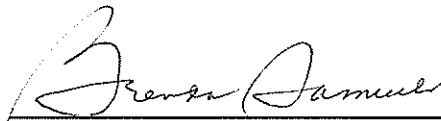
This has been corrected per police department chief.

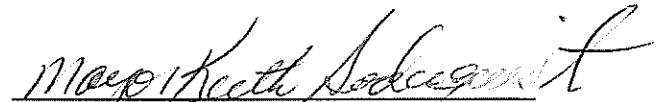
S) Buy Money - Police Department

We are taking the necessary steps to have an Ordinance drawn up to cover this and present to the council for approval.

T) Fees - Mayor's Office

Moving forward, we will make sure these discussions and votes will be reflected in the minutes as they are discussed at and approved at the meetings. The Park Board has approved these fees in January 2015 to clarify in the minutes.


Clerk Treasurer, Brenda Samuels


Mayor, Keith Soderquist

MAYOR
CITY OF LAKE STATION
EXIT CONFERENCE

The contents of this report were discussed on January 6, 2015, with Keith Soderquist, Mayor; Brenda Samuels, Clerk-Treasurer; John McDaniel, President Pro Tempore of the Common Council; Todd Rogers, Councilperson; and James Meyer, Assistant City Attorney.

COMMON COUNCIL
CITY OF LAKE STATION

COMMON COUNCIL
CITY OF LAKE STATION
FEDERAL FINDINGS

***FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted several deficiencies in the internal control system of the City related to financial transactions and reporting.

1. Lack of Segregation of Duties: The City has not separated incompatible activities related to cash and investment balances, disbursements (including payroll), and the preparation of the Annual Financial Report (AFR) and financial statement. Due to the size of the Clerk-Treasurer's Office, one employee performs all functions related to payroll. The Clerk-Treasurer is solely responsible for reconciling cash and investments. The Clerk-Treasurer also prepares the AFR in Gateway without oversight, review, or approval. The financial information submitted via Gateway generates the City's financial statement.

The Clerk-Treasurer and another employee perform the vendor disbursement functions, but there is insufficient segregation of duties at times due to the needs of the office and availability of staff. Although the Board of Public Works and Safety approves all disbursements on the Accounts Payable Voucher (APV) Docket, they do not physically inspect the APVs.

The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

2. Monitoring of Controls: An evaluation of the City's system of internal control has not been conducted. The failure to monitor the internal control system places the City at risk that controls either may not be designed properly or not be operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the City has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the City to monitor and assess the quality of the system of internal control.

The Water SRF - Bond fund was used to account for the activity related to the State Revolving Loan which financed water improvements. The activity recorded in the fund is based upon loan draws made from the Indiana Finance Authority (IFA). Two draws recorded had errors related to retainage for the improvement projects. The amounts recorded were from the draws submitted to the IFA and were not reconciled to the draws as approved by the IFA. The result of these errors was that both receipts and disbursements in the records, the AFR, and the financial statement were overstated by \$379,852.

Audit adjustments were proposed, accepted by the City, and made to the financial statement included in this report.

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)

COMMON COUNCIL
CITY OF LAKE STATION
FEDERAL FINDINGS
(Continued)

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 in the manner prescribed under IC 5-14-3.8-7."

***FINDING 2013-002 - INTERNAL CONTROLS AND COMPLIANCE OVER
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The SEFA was prepared by the Clerk-Treasurer and was not reviewed by another knowledgeable individual.

The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors:

1. The SEFA did not contain the Capitalization Grants for Drinking Water State Revolving Funds, which was the major program for the City. The Clerk-Treasurer's Office did not receive all the documents from the Indiana Finance Authority approving the draws made in 2013. The documents were sent to another office which did not realize that these documents contained the information needed for accurate reporting of the SEFA.

Although that office later provided many of the copies, there were still several draw approvals that could not be located and provided to the Clerk-Treasurer's Office. The missing draw approvals included Draws 5, 6, and 10 for grant DW12034501, and Draws 1 through 5 for grant DW12034502. These were obtained for audit after requested from the granting agency.

2. The Equitable Sharing Program was also omitted from the SEFA.

Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

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)

COMMON COUNCIL
CITY OF LAKE STATION
FEDERAL FINDINGS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states in part:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available."

***FINDING 2013-003 - INTERNAL CONTROL OVER CAPITALIZATION
GRANTS FOR DRINKING WATER STATE REVOLVING FUNDS***

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Drinking Water State Revolving Funds
CFDA Number: 66.468
Federal Award Number: DW12034501 and DW12034502
Pass-Through Entity: Indiana Finance Authority

Management of the City has not established an effective internal control system, which would include segregation of duties related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs, and Reporting compliance requirements. This would also include monitoring activities of paid consultants, related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs, Davis-Bacon Act, and Suspension and Debarment compliance requirements, as follows:

1. The consultant engineering firm reviews all contractor requests for payment and submits them to the City for payment. The firm also submits invoices to the City for payment for services rendered. Upon receipt of the invoices and requests from the Mayor's Office, the Clerk-Treasurer prepares the Accounts Payable Vouchers (APV) and the drawdown requests to be submitted to the Indiana Finance Authority (IFA) for State Revolving Fund (SRF) payment.

COMMON COUNCIL
CITY OF LAKE STATION
FEDERAL FINDINGS
(Continued)

The drawdowns prepared by the Clerk-Treasurer, for submission to the IFA for payment, are not reviewed by anyone else at the City. Although the Mayor signs the drawdown requests as required, the requests are not reviewed for compliance with reporting requirements.

2. The consulting engineering firm inserted Suspension and Debarment compliance language into the bid specifications for the construction projects. The City relied upon the consultants engaged by the IFA to ensure that Suspension and Debarment compliance requirements were met for other vendors paid from the SRF funds. The City also relied upon these same consultants to ensure that Davis-Bacon Act compliance requirements were met for construction payments paid from the SRF. An oversight or review process has not been established.
3. The APVs prepared by the Clerk-Treasurer are approved by the Board of Public Works and Safety (Board), based upon an APV register submitted at a meeting. The actual APVs with the attached invoices are not individually reviewed by the Board. No documentation was noted that the APVs were reviewed for compliance with Activities Allowed or Unallowed, and Allowable Costs compliance requirements.

The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis.

In order to have an effective internal control system, it is important to have proper segregation of duties, and to ensure that the activities of paid consultants are monitored. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity. Additionally, the City did not have a system in place to ensure the work product provided by consultants relates to Activities Allowed or Unallowed, Allowable Costs, Davis-Bacon Act, Suspension and Debarment, and Reporting requirements was adequate, complete, and accurate.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above. We also recommended that the City's management establish controls to effectively monitor consultants to ensure compliance related to the grant agreement and compliance requirements that have a direct and material effect on the program.



1969 Central Ave. Lake Station, IN 46405

CORRECTIVE ACTION PLAN

FINDING 2013-001

Contact Person Responsible for Corrective Action: Brenda Samuels, Clerk-Treasurer
Contact Phone Number: (219) 962-3111, ext. 318

Description of Corrective Action Plan:


Lack of Segregation of Duties

The City has not separated incompatible activities due to the size of the Clerk-Treasurer's Office and the availability of staff. The Clerk-Treasurer's Office will review the segregation of duties and separate the approval function, the accounting/reconciliation function, and the asset custody function when possible. When these functions cannot be separated, a detailed supervisory review of related activities will be required.

Monitoring of Controls

The Clerk-Treasurer's Office will design, implement and monitor a system of internal controls. The Clerk-Treasurer's Office implement controls over the receipting, disbursing, recording and accounting for financial activities. When these controls cannot be implemented, a detailed supervisory review of related activities will be required.

Anticipated Completion Date: March 30, 2015


(Signature)

Clerk Treasurer
(Title)

01-14-15
(Date)


(Signature)

Mayor
(Title)

1/14/15
(Date)


(Signature)

Council President
(Title)

1/14/15
(Date)



1969 Central Ave. Lake Station, IN 46405

CORRECTIVE ACTION PLAN

FINDING 2013-002

Contact Person Responsible for Corrective Action: Brenda Samuels, Clerk-Treasurer
Contact Phone Number: (219) 962-3111, ext. 318

Description of Corrective Action Plan: The Clerk-Treasurer's Office will implement a procedure whereby the Police Department staff will reconcile with the Clerk-Treasurer's Office staff grant balances, payroll and general ledger expenditures, and drawdown receipt reports to assure that reports submitted are accurate, and has proper documentation to ensure a proper system of internal controls on the Schedule of Expenditures of Federal Awards (SEFA).

Anticipated Completion Date: June 30, 2015


(Signature)

Clerk Treasurer
(Title)

01-14-15
(Date)


(Signature)

Mayor
(Title)

1/14/15
(Date)


(Signature)

Council President
(Title)

1/14/15
(Date)



1969 Central Ave. Lake Station, IN 46405


CORRECTIVE ACTION PLAN

FINDING 2013-003

Contact Person Responsible for Corrective Action: Brenda Samuels, Clerk-Treasurer
Contact Phone Number: (219) 962-3111, ext. 318

Description of Corrective Action Plan: The Clerk-Treasurer will establish a system of internal controls, including segregation of duties related to monitoring compliance with the federal grant agreement's requirements, including activities that are allowed or not allowed, allowable costs, and documenting and reporting compliance with the requirements. The Clerk-Treasurer will also review the accounts payable vouchers and monitor and document the monitoring of consultant activities to ensure compliance with all requirements of the grant agreement, including, but not limited to Davis-Bacon requirements.

Anticipated Completion Date: April 30, 2015


(Signature)

Clerk Treasurer
(Title)

01-14-15
(Date)


(Signature)

Mayor
(Title)

1/14/15
(Date)


(Signature)

Council President
(Title)

1/14/15
(Date)

COMMON COUNCIL
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS

FINANCIAL CONCERNS

Overdrawn Cash Balances

The financial statement included the following funds with overdrawn cash balances at December 31, 2013:

Fund	Amount Overdrawn
General Fund	\$ 2,017,131
Refuse Department	49,670
Park and Recreation Fund	35,334
Municipal Complex	211,288
Water Utility Operating	<u>35,755</u>
Total	<u>\$ 2,349,178</u>

As noted above, the General Fund was overdrawn by \$2,017,131 at December 31, 2013. It should also be noted that the City's General Fund cash balance has been consistently overdrawn at December 31 of each year since 2007 as follows:

Year Ended December 31	Ending Cash Balance
2013	\$ (2,017,131)
2012	(1,957,818)
2011	(1,683,903)
2010	(1,850,962)
2009	(1,995,148)
2008	(1,149,332)
2007	(548,698)

The General Fund's cash position at December 31, 2013, would have been a larger overdrawn balance except for the interfund loans it received from various funds as described below:

This is the second year for which the Water Utility Operating fund had an overdrawn cash balance at December 31. The overdrawn balance was due to a temporary interfund loan of \$50,000 provided to the General Fund in December 2013 and not repaid until 2014.

The Municipal Complex fund overdrawn cash balance was due to a temporary interfund loan of \$250,000 given to the General Fund in December 2013 and not repaid until 2014.

The City's cash balance per the financial statement at December 31, 2013 was \$1,957,360. However, certain funds are not available for City use. The Court funds do not run through the City's accounting system and are not available for City disbursements. Debt service and debt

COMMON COUNCIL
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

proceed funds are restricted by debt covenants and agreements to be spent for debt service or the purpose for which the debt was issued only. After reducing the reported ending balance for Court, debt service and debt proceed funds, the City's net ending cash balance was (\$16,355).

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)

Customer Meter Deposits - Water Utility

The Water Utility requires a customer meter deposit on all accounts. The meter deposits are to be recorded in the Water Deposit fund. A Guarantee Deposit register is to be maintained by individual customer of all meter deposits on hand. The Guarantee Deposit Register should be reconciled monthly with the cash balance in the Water Deposit fund.

Prior to 2011, all meter deposits were maintained in the Water Utility Operating fund. In 2011, the Water Utility created a Water Deposit fund. All meter deposits collected in 2011 through 2013 were recorded in the Water Deposit fund; however, no transfers were made from the Water Utility Operating fund to account for collections prior to 2011. Thus, the combined cash balance of the Water Utility Operating and Water Deposit funds must be at least equal to, if not greater than, the balance of the Guarantee Deposit Register at any given time.

A detailed deposit register as of December 31, 2013, had a balance of \$181,531. The Water Utility Operating and Water Deposit funds' cash balances at December 31, 2013, were only (\$35,755) and \$68,270, respectively. Refunds of customer deposits for 2011 through 2013 are being paid from the Water Utility Operating fund.

The Water Deposit fund shared a bank account with the Water Utility Operating fund. Due to the overdrawn operating fund cash balance, customer deposits were used to fund operations.

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 records presented for audit indicated the following expenditures in excess of budgeted appropriations for 2013:

<u>Fund</u>	<u>Excess Amount Expended</u>
General Fund	\$ 1,665,000
Park GO	23,276
Park Non-Reverting Fund	16,705

COMMON COUNCIL
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

Other issues noted related to appropriations:

1. Review of the appropriation ledger determined that the budget as recorded exceeded the budget as approved by the Indiana Department of Local Government and Finance (DLGF). The budget recorded agreed to the budget approved by the Common Council.
2. Additional review of the appropriation ledger determined that the funds which issued Tax Anticipation Warrants (loans) did not record the interest on the loan against the budget. Although the repayment of the principal does not require an appropriation, the interest was recorded with the principal as unappropriated.
3. Many of the funds of the City were required to be locally appropriated by the Common Council. The Common Council adopted Ordinance 2013-08 on September 19, 2013, to budget these funds for the calendar year 2013. Disbursements were made from these funds prior to adoption of the budget.

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."

Indiana Code 6-1.1-18-10 states:

"(a) If the proper officers of a political subdivision make an appropriation for an item which exceeds the amount which they are permitted to appropriate under this chapter, they are guilty of malfeasance in office and are liable to the political subdivision in an amount equal to the sum of one hundred and twenty-five percent of the excess so appropriated and court cost.

(b) Upon the relation of a taxpayer who owns property which is subject to taxation by the political subdivision, the appropriate prosecuting attorney shall initiate an action in the name of this state to recover the amount for which the proper officers of the political subdivision are liable under this section."

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 therefore unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Water Bond Ordinance

The Common Council approved Ordinance 2012-20 on October 25, 2012, concerning the issuance of revenue bonds for the construction and improvements to the Water Utility of the City. Two sets of revenue bonds were issued for this project; one in December 2012, and the other in 2013. Both were sold to the Indiana Finance Authority through the State Revolving Loan Fund.

The bond ordinance has several sections regarding the treatment and use of income and revenues of the Waterworks. However, we noted that the City did not comply with several bond ordinance requirements for the treatment and use of income and revenues of the Utility.

Ordinance 2012-20, Section 10, states in part: ". . . a sufficient amount of the revenues of the System so that the balance in the Operation and Maintenance Fund shall be sufficient to pay the expenses of operation, repair and maintenance of the System for the then next succeeding two (2) calendar months."

COMMON COUNCIL
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

The financial consultant for the bond issue, in a letter to the City, estimated that the operating fund should have a balance of \$141,200 each month in 2013. As noted in the following table, the City only met that requirement for one month in 2013.

	End of Month Cash Balance	Monthly Required Amount	Difference Underfunded (Requirement Met)
January	\$ 141,013	\$ 141,200	\$ 187
February	143,780	141,200	(2,580)
March	14,347	141,200	126,853
April	(16,973)	141,200	158,173
May	(36,654)	141,200	177,854
June	71,285	141,200	69,915
July	(3,447)	141,200	144,647
August	9,521	141,200	131,679
September	39,208	141,200	101,992
October	63,880	141,200	77,320
November	(17,449)	141,200	158,649
December	(35,755)	141,200	176,955

Ordinance 2012-20, Section 10, states in part:

"The moneys credited to the Operation and Maintenance Fund shall be used for the payment of the reasonable and proper operation, repair and maintenance expenses of the System on a day-to-day basis, but none of the monies in such fund shall be used for transfers for payments-in-lieu of property taxes, depreciation, replacements or improvements . . ."

Ordinance 2012-20, Section 12, states in part:

"Improvement Fund - After meeting the requirements of the Operation and Maintenance Fund and the Sinking Fund set forth above, the City shall transfer to the Improvement Fund from the Revenue Fund on or before the last day of each calendar month a sufficient amount of Net Revenues to be used for transfers for payments-in-lieu of property taxes, improvements to, replacements of, additions to and extensions of the System . . ."

A transfer of \$225,000 was made from the Water Utility Operating fund to the City's General Fund for payment in lieu of taxes (PILOT). The City did not have an improvement fund. Additionally, there was only one month in 2013 where any revenues could have been transferred to an improvement fund for PILOT and that was only in the amount of \$2,580. Therefore the Utility made PILOT transfers of \$222,420 to the City's General Fund when there were insufficient revenues to meet the funding requirements of the bond ordinance.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

COMMON COUNCIL
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

Fund Sources and Uses

The following issues with the use of funds were noted:

1. A portion of Fire Department employee benefits (FICA, Unemployment, Medicare) totaling \$3,924, payable from the General Fund, were reallocated and recorded in the Motor Vehicle Highway and Sewage funds.
2. The Stormwater MS4 fund paid the insurance deductible which was related to former City employees. This was unrelated to the purpose or operations of the Stormwater MS4 fund.
3. The primary funds that paid for the various liability insurance coverage were Sewage (\$93,900), Water Utility Operating (\$35,000), Motor Vehicle Highway (\$59,587), General Fund (\$28,478) and Local Road and Street (LRS) (\$18,000). Other funds paid smaller amounts. The liability insurance costs for the law enforcement coverage itself exceeded what was paid by the General Fund. There was no documentation to support the allocation of the insurance to any of the funds. Additionally, the payment for the insurance from the LRS fund did not comply with the statutory uses for the fund as set forth in Indiana Code 8-14-2-5.
4. The City incurred finance charges to finance the payment of the insurance coverage, due to the insurance broker having to go outside the standard market to obtain coverage. This change required the City to pay the insurance differently than it had in the past, which required it to finance the payments.
5. The third deputy in the Clerk-Treasurer's Office was paid from General Fund until April 2013. One pay was then charged to the Sewage fund and all remaining payrolls were charged to the Water Utility Operating fund. The employee performs duties related to all City funds, not just the Water Utility. No cost allocation plan was developed.
6. Gas and electric invoices for City Hall, Fire/Ambulance, Street Lighting, and other City buildings were paid from the Sewage and Water Utility Operating funds in 2013. These bills, totaling \$117,342, would have normally been paid from the General Fund.
7. Various disbursements were made for "promotion of business" from the Sewage, Water Utility Operating, Refuse Department, and Stormwater MS4 funds. These disbursements included purchase of hams for food pantry and employees, candy for 4th of July parade, food for City movie nights and September Fest. Utility and user charge funds were used for purchases not related to the operation of the Utilities.

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)

Indiana Code 8-14-2-5 states:

"Money from the local road and street account shall be used exclusively by cities, towns, and counties for:

- (1) engineering, land acquisition, construction, resurfacing, maintenance, restoration, or rehabilitation of both local and arterial road and street systems;

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AUDIT RESULTS AND COMMENTS
(Continued)

- (2) the payment of principal and interest on bonds sold primarily to finance road, street, or thoroughfare projects;
- (3) any local costs required to undertake a recreational or reservoir road project under IC 8-23-5; or
- (4) the purchase, rental or repair of highway equipment."

It appears legislative intent is for local road and street account distributions to be used only for direct expenses incurred in the construction, reconstruction, or maintenance of arterial and local roads and streets in cities and towns. This would prohibit the use of such funds for building buildings or for such indirect costs as administrative salaries or supplies, goods, or materials not used directly for one of the aforementioned purposes. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2011)

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."

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 for Cities and Towns, Chapter 7)

Indiana Code 36-9-25-11(a) states in part:

"In connection with its duties, the board may fix fees for the treatment and disposal of sewage and other waste discharged into the sewerage system, collect the fees, and establish and enforce rules governing the furnishing of and payment for sewage treatment and disposal service. The fees must be just and equitable and shall be paid by any user of the sewage works and . . . the owner of every lot, parcel of real property, or building that is connected with and uses the sewage works of the district by or through any part of the sewerage system."

Subsequent Events - Riverboat Fund Transfer

The Council approved Resolution 2014-10 on August 21, 2014. Based upon this resolution, the City transferred \$420,000 from the Riverboat - Infrastructure fund to the General Fund. The transfer to the General Fund did not comply with the City's Interlocal agreement for use of the Riverboat - Infrastructure fund.

The City receives Riverboat distributions from Lake County based upon an Interlocal cooperation agreement that the City agreed to in 1997. The Interlocal agreement states in part:

- "6. Uses of Money. The Municipalities agree to restrict the use of their share of the proceeds for the purposes of Infrastructure improvements. For the purpose of this Interlocal agreement, Infrastructure improvements shall include the following provisions as set forth in I.C. 8-14-1 et seq: . . ."

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)

COMMON COUNCIL
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Impact on Independent Auditor's Report

An explanatory paragraph was added to the Independent Auditor's Report which states the assumption that the City will continue as a going concern. City officials should continue to assess the financial situation of the City to ensure a sustainable resolution to the material deficit cash balances has been determined.

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)

CREDIT CARDS

Resolution No. 2011-13 "Resolution of the Board of Works of the City of Lake Station, Indiana amending the Resolution Authorizing the Use of City Credit Cards, Resolution No. 2004-08" was passed by the Board of Public Works and Safety on September 20, 2011. The following are from the resolution:

- "3. That the city credit card shall only be used for City expenditures, including seminars, food and lodging, City emergencies allowed by State Statute or City Ordinance, and expenditures of the promotional funds pursuant to City Ordinance."
- "5. That each expenditure paid by the credit card must reflect a credit line for the purchase, and a receipt for the expenditure shall be delivered by the purchaser to the Clerk-Treasurer."
- "6. That the expenditure reflected on the credit card statement shall not be paid by the Clerk-Treasurer unless the receipt for the purchase is delivered to the Clerk by the purchaser. In the event the purchaser does not deliver the receipt for the purchase, the purchaser shall be personally liable for any late payment fees."

Our examination of forty-three charges made using the City credit card, for the period June 27, 2013 through December 23, 2013, noted that:

1. Twelve of the charges totaling \$1,027 for meals did not contain adequate itemization.
2. Six of the charges were for meals while the employee(s) were in nontravel status.

Resolution 2011-13 does not specifically address the allowability of local meals being charged to City funds.

COMMON COUNCIL
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AUDIT RESULTS AND COMMENTS
(Continued)

Our examination of these credit card charges also found that six charges were disbursed from inappropriate funds. Examples include:

1. School supplies were disbursed from the Water Utility Operating, Sewage, and Stormwater MS4 funds.
2. Gift cards acquired for movie night were disbursed from Sewage funds.
3. A Christmas planning lunch meeting was disbursed from the Sewage fund.

As of the credit card statement closing date of January 26, 2014, the City had an outstanding balance on their credit card account that consisted of: \$83.04 in interest, \$75.60 in late fees, and \$47.23 of outstanding charges from August 2013 (net of credits).

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.
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)

COMMON COUNCIL
CITY OF LAKE STATION
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(Continued)

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 for Cities and Towns, Chapter 7)

PENALTIES, INTEREST, AND OTHER CHARGES

The audit report for calendar year 2009, Report B37677, contained a comment that the City had incurred penalties and interest of \$635.94. The audit report for calendar year 2010, Report B39644, also contained a comment the City had incurred late fees, finance and interest charges, and over limit fees of \$241.86. Report B39644 also requested the Clerk-Treasurer reimburse the City \$241.86, which was done on September 21, 2011, and noted in Report B39644.

The City reimbursed the Clerk-Treasurer \$241.86 on July 3, 2012, with Accounts Payable Voucher 21650 and Check 16950. The reimbursement was for the payment the Clerk-Treasurer had made on September 21, 2011, to the City, for the fees and interest charges addressed in the 2010 report. Review of the June 21, 2012 Common Council meeting noted the Mayor stating the following: "there was no derelict of duty from our Clerk-Treasurer. Brenda Samuels paid those out of her own pocket until the City could reimburse her. The amount was for \$241.86. I entertain a motion to reimburse Brenda." The Common Council passed the motion 7-0 to reimburse the Clerk-Treasurer.

The Clerk-Treasurer repaid the City \$241.86 on December 30, 2014, City Receipt Number 67173.

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.

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)

NONGOVERNMENTAL EXPENSES AND DONATIONS

The City spent \$57,433 in 2013 from the promotion budget of the City, which was paid from various funds. This included \$20,068 paid from utility and user charge funds including the Water Utility Operating, Sewage, Refuse Department, and Stormwater MS4 funds.

Some of the promotion (\$11,192) of the City expenditures in 2013 included:

1. Donations to churches and other organizations such as Building Together, a children's cancer foundation, and
2. \$5,278 spent on turkeys and hams for "seniors, food pantry and employees" according to the description on an Accounts Payable Voucher.

The Annual Financial Report filed by the City for 2013 did not report the financial assistance (donations) made by the City to nongovernmental entities as required.

COMMON COUNCIL
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AUDIT RESULTS AND COMMENTS
(Continued)

Other disbursements from the utility and user charge funds unrelated to the operations of the funds included "sponsorship" of City baseball program totaling \$5,400, candy for 4th of July parade totaling \$1,113, and \$7,550 for items for September Fest.

Every effort should be made by the governmental unit to avoid unreasonable or excessive costs. (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 for Cities and Towns, Chapter 7)

Governmental funds should not be donated or given to other organizations, individuals, or governmental units unless specifically authorized by statute. IC 36-10-2-4 and 5 allow cities and towns to establish, aid, maintain, and operate libraries, museums, cultural historical and scientific facilities and programs, community service facilities and programs, neighborhood centers, community centers, civic centers, convention centers, auditorium arenas, and stadiums. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 5-11-1-4(a) 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 in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

LOANS BETWEEN FUNDS

A temporary loan was made between funds in 2013 without the approval of the Common Council, the fiscal body of the City. The temporary loan of \$200,000 was made to the General Fund from the Municipal Complex fund on May 3, 2013. Resolution 2013-03 authorizing the loan was approved by the Board of Public Works and Safety on May 7, 2013, after the temporary loan had been made.

On October 2, 2013, the Common Council approved temporary loans to the General Fund with resolution 2013-07. The Municipal Complex and the Water Utility Operating funds were overdrawn by \$211,288 and \$35,755, respectively, at December 31, 2013, due to the loans made to the General Fund and not repaid by year end.

Indiana Code 36-1-8-4, concerning temporary loans, states in part:

"(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 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 fund that is in need of money for cash flow purposes.

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AUDIT RESULTS AND COMMENTS
(Continued)

- (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.
- (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."

PREAPPROVED PAYMENTS OF CLAIMS

The Board of Public Works and Safety (Board) adopted Resolution 2013-04 on June 4, 2013. This resolution detailed what items may be paid by the Clerk-Treasurer prior to approval by the Board. Prior to adopting Resolution 2013-04, the Board had adopted Resolutions 2013-01 and 2012-01 in January of 2013 and 2012 to grant the Clerk-Treasurer authorization to pre-pay certain claims. The Clerk-Treasurer had relied upon these resolutions to make payments of claims prior to Board approval. Indiana statute however, requires an ordinance to be adopted by the Common Council to permit payment of claims prior to Board approval.

Indiana Code 36-4-8-14 states:

"(a) A city legislative body may adopt an ordinance allowing money to be disbursed for lawful city purposes under this section.

(b) Notwithstanding IC 5-11-10, with the prior written approval of the board having jurisdiction over the allowance of claims, the city fiscal officer may make claim payments in advance of board allowance for the following kinds of expenses if the city legislative body has adopted an ordinance under subsection (a):

COMMON COUNCIL
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AUDIT RESULTS AND COMMENTS
(Continued)

- (1) Property or services purchased or leased from the United States government, its agencies, or its political subdivisions.
 - (2) License or permit fees.
 - (3) Insurance premiums.
 - (4) Utility payments or utility connection charges.
 - (5) General grant programs where advance funding is not prohibited and the contracting party posts sufficient security to cover the amount advanced.
 - (6) Grants of state funds authorized by statute.
 - (7) Maintenance or service agreements.
 - (8) Leases or rental agreements.
 - (9) Bond or coupon payments.
 - (10) Payroll.
 - (11) State, federal, or county taxes.
 - (12) Expenses that must be paid because of emergency circumstances.
 - (13) Expenses described in an ordinance.
- (c) Each payment of expenses under this section must be supported by a fully itemized invoice or bill and certification by the fiscal officer.
- (d) The city legislative body or the city board having jurisdiction over the allowance of the claim shall review and allow the claim at its next regular or special meeting following the preapproved payment of the expense."

COMPENSATION AND SALARY ORDINANCE

The Mayor authorized the payment of a position to be split between the Motor Vehicle Highway and Stormwater MS4 funds. The salary amount paid from the Stormwater MS4 fund was not authorized by the Salary Ordinance.

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)

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)

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(Continued)

IMPROPER USE OF COURT FUNDS

The City established five funds which are not in compliance with Indiana Code 33-37-8-3, which indicates only one City User Fee fund should be established for the receipt and disbursement of these fees collected by the City Court. These cash balances, receipts, and disbursements of these funds for 2013 are:

Fund Name	Beginning Cash Balance	Receipt	Disbursement	Ending Cash Balance
Alcohol Program Monitor	\$ 1,282	\$ 2,900	\$ 3,235	\$ 947
Deferral - Police	-	30,400	20,153	10,247
Deferral - Ordinance Violation	-	30,493	20,200	10,293
User Fee LS Continuing Education	3,751	2,526	-	6,277
Deferral - Infraction	-	27,840	15,305	12,535

All disbursements of the Deferral Police, Deferral - Ordinance Violation and Deferral - Infraction funds were transferred to the General Fund in October 2013. All of the disbursements of the Alcohol Program Monitor fund were for payroll related costs.

A similar comment appeared in several prior reports.

Indiana Code 33-37-8-3 states:

"(a) A city or town user fee fund is established in each city or town having a city or town court for the purpose of supplementing the cost of various program services. The city or town fund is administered by the fiscal officer of the city or town.

(b) The city or town fund consists of the following fees collected by a clerk under this article:

- (1) The pretrial diversion program fee.
- (2) The alcohol and drug services fee.
- (3) The law enforcement continuing education program fee.
- (4) The deferral program fee.
- (5) The problem solving court fee."

Indiana Code 33-37-8-4 states:

"(a) Except as provided in subsection (b), upon receipt of monthly claims submitted on oath to the fiscal body by a program listed in section 3(b) of this chapter, the fiscal body of the city or town shall appropriate from the city or town fund to the program the amount collected for the program fee under IC 33-37-5.

(b) Funds derived from a deferral program or a pretrial diversion program may be disbursed only by the adoption of an ordinance appropriating the funds for one (1) or more of the following purposes:

COMMON COUNCIL
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (1) Personnel expenses related to the operation of the program.
 - (2) Special training for:
 - (A) a prosecuting attorney;
 - (B) a deputy prosecuting attorney;
 - (C) support staff for a prosecuting attorney or deputy prosecuting attorney; or
 - (D) a law enforcement officer.
 - (3) Employment of a deputy prosecutor or prosecutorial support staff.
 - (4) Victim assistance.
 - (5) Electronic legal research.
 - (6) Office equipment, including computers, computer software, communication devices, office machinery, furnishings, and office supplies.
 - (7) Expenses of a criminal investigation and prosecution.
 - (8) An activity or program operated by the prosecuting attorney that is intended to reduce or prevent criminal activity, including:
 - (A) substance abuse;
 - (B) child abuse;
 - (C) domestic violence;
 - (D) operating while intoxicated; and
 - (E) juvenile delinquency.
 - (9) Any other purpose that benefits the office of the prosecuting attorney or law enforcement and that is agreed upon by the county fiscal body and the prosecuting attorney.
- (c) Funds described in subsection (b) may be used only in accordance with guidelines adopted by the prosecuting attorneys council under IC 33-39-8-5."

BUY MONEY

An ordinance adopted by the Common Council, establishing the police buy money and approving related receipts and disbursements, was not presented for the audit.

COMMON COUNCIL
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AUDIT RESULTS AND COMMENTS
(Continued)

The following procedures should be followed if a municipality wishes to obtain an appropriation and make expenditures for buy money or payments to informants:

1. under Indiana Code 36-1-3 an ordinance should be passed allowing this type of program and associated expenditures;
2. an appropriation for such purpose must be obtained in the manner authorized by state statutes;
3. petty cash fund procedures are to be followed as authorized by Indiana Code 36-1-8-3; and
4. a minimum documentation procedure must be followed, similar to either:
 - A. "Guidelines for the Expenditure of Confidential Funds," published by the U.S. Department of Criminal Justice.
 - B. "Guidelines for Obtaining and Accounting For Confidential Funds Used in Support of Criminal Investigations," (Revised S.O.P. INV-009), by the Indiana State Police Department.

(Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2013)

FEES

Fees charged for booth rentals and beverages sold at September Fest, collected by the Mayor's Office, were not approved by the Park Board or the Common Council. The fees which were readily available from the City's ledgers totaled \$4,811.

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)



1969 Central Ave. Lake Station, IN 46405

January 28, 2015

State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, IN 46204-2765
idavid@sboa.in.gov

OFFICIAL RESPONSE FOR 2013

A) Overdrawn Cash Balances

Since we took office in 2008 many of the City Funds have a negative balance, with the General Fund taking the brunt of it. We found that many payables weren't even in the system at the time as they were found in desk drawers, on file cabinets, etc. We hired Umbaugh and Associates to help us come up with a plan to reduce this deficit and eliminating it may take a year or two more with our implemented plan. Since the City doesn't receive it's money from the County until usually the last day of the year, there is no way to know in advance how much money we will have and, knowing we must pay all previous loans (TAW's) taken in the prior year....and all Bonds, all due by December 31st, requires the City to use interfund loans to temporarily cover the cash shortfalls at the end of the year.

B) Customer Meter Deposits - Water Utility

Once we were advised in 2011 that the meter deposits should be kept in a separate fund from the water utility operating fund, we created said fund and started depositing all deposits to this fund. Refunds were still paid from the Operating Fund to gain a substantial balance in the new Meter Deposit Fund until we could research and verify what the balance in the Meter Deposit Fund should be. Now

that amount has been established, we will implement a plan in 2015 to start transferring the funds from the Operating Fund...to the Meter Deposit Fund until we have the correct balance in that Fund.

C) Appropriations

- 1) Due to the negative balance in the General Fund, the DLGF wouldn't approve our budget/appropriation, but paying our wages and bills was the only way to keep the City operating.
- 2) Being made aware there needs to be an appropriation line for the interest on the TAW loans, we will implement this in our next budget.
- 3) We were unaware this transfer was a violation and will not do so in the future.
- 4) Prior to us taking office in 2008, many funds were not in the budget submitted to DLGF. Our city attorney recommended we do this, which happened to fall at year end.

D) Water Bond Ordinance

We will not make any payments to the City for in lieu of taxes unless this requirement is met.

E) Fund Sources and Uses

- 1-5) Documentation was not requested and in fact, we did a percentage shared cost for all related departments that is why employees were shifted to different departments as they shared cost.

F) Subsequent Events - Riverboat Fund Transfer

Based on the confirmation from our financial consultant, Cender & Company, we feel the transfer was proper.

G) Impact on Independent Auditor's Report

The City has been working with financial consultants since 2008, slowly reducing this deficit.

H) Credit Cards

Those employees authorized to have a City credit card will be informed to make sure they turn in more detailed receipts, they can't use the card for meals unless travel related, and to make sure they use the proper appropriations. The Clerk Treasurers office will follow up on the documentation presented before payment.

I) Penalties, Interest, and other Charges

As noted this in the report, all amounts due have been paid.

J) Nongovernmental Expenses and Donations

Being made aware, all donations for 2014 and moving forward, will be in the Gateway system. Moving forward in 2015, no donations will be paid from the Utility Funds, nor any expenses not directly related to the purpose of each Fund.

K) Loan Between Funds

This was only done due to an emergency situation.

L) Preapproved payments of Claims

Being made aware an Ordinance through the Council is necessary instead of the Resolution of the BOW. An ordinance has already been submitted to the Council for approval.

M) Nonuse of Purchase Orders

The nonuse of purchase orders did not contribute to overspending. Not sure how to answer this. Exceeding the appropriations was due to the carryover of old cash deficits from the previous administration as discussed above. Beginning in 2014, the City no longer exceeds the appropriations approved by the DLGF and the Clerk-Treasurer's office will not approve payment of any expenses that would cause that to occur.

N) Capital Assets

- 1) Infrastructure will be assessed and included in the assets when the city can financially afford to do so.
- 2) The detail for these properties has already been researched and to the capital assets.
- 3) These vehicles now been added to the capital assets list.
- 4) We were unaware we needed to keep a "construction in progress" in our capital asset list, assuming we'd show the project as a whole upon completion. We have now added to our asset list, through 2014.
- 5) We have now deleted all assets under \$5,000.00 per Ordinance 2012-21

O) Improper use of Court Funds

We are currently working with the city attorney to take the proper steps to combine the three Deferral funds, and process expenditures per law.

P) Utility Receipts Tax

We will notify the clerk responsible for the calculation in the Water Utility so that future calculations are correct.

Q) Prescribed Forms - Receipts

Being made aware of the detail, we have contacted all departments referenced and informed them of the proper manner on December 18, 2014.

R) Receipt Issuance and Deposit

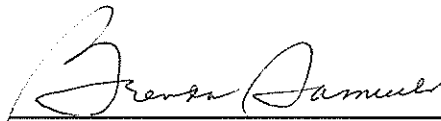
This has been corrected per police department chief.

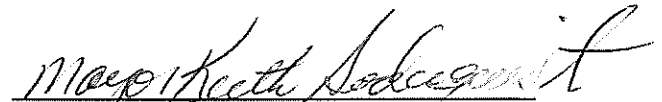
S) Buy Money - Police Department

We are taking the necessary steps to have an Ordinance drawn up to cover this and present to the council for approval.

T) Fees - Mayor's Office

Moving forward, we will make sure these discussions and votes will be reflected in the minutes as they are discussed at and approved at the meetings. The Park Board has approved these fees in January 2015 to clarify in the minutes.


Clerk Treasurer, Brenda Samuels


Mayor, Keith Soderquist

COMMON COUNCIL
CITY OF LAKE STATION
EXIT CONFERENCE

The contents of this report were discussed on January 6, 2015, with Keith Soderquist, Mayor; Brenda Samuels, Clerk-Treasurer; John McDaniel, President Pro Tempore of the Common Council; Todd Rogers, Councilperson; and James Meyer, Assistant City Attorney.

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CLERK-TREASURER
CITY OF LAKE STATION

CLERK-TREASURER
CITY OF LAKE STATION
FEDERAL FINDINGS

***FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted several deficiencies in the internal control system of the City related to financial transactions and reporting.

1. Lack of Segregation of Duties: The City has not separated incompatible activities related to cash and investment balances, disbursements (including payroll), and the preparation of the Annual Financial Report (AFR) and financial statement. Due to the size of the Clerk-Treasurer's Office, one employee performs all functions related to payroll. The Clerk-Treasurer is solely responsible for reconciling cash and investments. The Clerk-Treasurer also prepares the AFR in Gateway without oversight, review, or approval. The financial information submitted via Gateway generates the City's financial statement.

The Clerk-Treasurer and another employee perform the vendor disbursement functions, but there is insufficient segregation of duties at times due to the needs of the office and availability of staff. Although the Board of Public Works and Safety approves all disbursements on the Accounts Payable Voucher (APV) Docket, they do not physically inspect the APVs.

The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

2. Monitoring of Controls: An evaluation of the City's system of internal control has not been conducted. The failure to monitor the internal control system places the City at risk that controls either may not be designed properly or not be operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the City has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the City to monitor and assess the quality of the system of internal control.

The Water SRF - Bond fund was used to account for the activity related to the State Revolving Loan which financed water improvements. The activity recorded in the fund is based upon loan draws made from the Indiana Finance Authority (IFA). Two draws recorded had errors related to retainage for the improvement projects. The amounts recorded were from the draws submitted to the IFA and were not reconciled to the draws as approved by the IFA. The result of these errors was that both receipts and disbursements in the records, the AFR, and the financial statement were overstated by \$379,852.

Audit adjustments were proposed, accepted by the City, and made to the financial statement included in this report.

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)

CLERK-TREASURER
CITY OF LAKE STATION
FEDERAL FINDINGS
(Continued)

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 in the manner prescribed under IC 5-14-3.8-7."

***FINDING 2013-002 - INTERNAL CONTROLS AND COMPLIANCE OVER
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The SEFA was prepared by the Clerk-Treasurer and was not reviewed by another knowledgeable individual.

The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

During the audit of the SEFA, we noted the following errors:

1. The SEFA did not contain the Capitalization Grants for Drinking Water State Revolving Funds, which was the major program for the City. The Clerk-Treasurer's Office did not receive all the documents from the Indiana Finance Authority approving the draws made in 2013. The documents were sent to another office which did not realize that these documents contained the information needed for accurate reporting of the SEFA.

Although that office later provided many of the copies, there were still several draw approvals that could not be located and provided to the Clerk-Treasurer's Office. The missing draw approvals included Draws 5, 6, and 10 for grant DW12034501, and Draws 1 through 5 for grant DW12034502. These were obtained for audit after requested from the granting agency.

2. The Equitable Sharing Program was also omitted from the SEFA.

Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

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)

CLERK-TREASURER
CITY OF LAKE STATION
FEDERAL FINDINGS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states in part:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available."

***FINDING 2013-003 - INTERNAL CONTROL OVER CAPITALIZATION
GRANTS FOR DRINKING WATER STATE REVOLVING FUNDS***

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Drinking Water State Revolving Funds
CFDA Number: 66.468
Federal Award Number: DW12034501 and DW12034502
Pass-Through Entity: Indiana Finance Authority

Management of the City has not established an effective internal control system, which would include segregation of duties related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs, and Reporting compliance requirements. This would also include monitoring activities of paid consultants, related to the grant agreement and the Activities Allowed or Unallowed, Allowable Costs, Davis-Bacon Act, and Suspension and Debarment compliance requirements, as follows:

1. The consultant engineering firm reviews all contractor requests for payment and submits them to the City for payment. The firm also submits invoices to the City for payment for services rendered. Upon receipt of the invoices and requests from the Mayor's Office, the Clerk-Treasurer prepares the Accounts Payable Vouchers (APV) and the drawdown requests to be submitted to the Indiana Finance Authority (IFA) for State Revolving Fund (SRF) payment.

CLERK-TREASURER
CITY OF LAKE STATION
FEDERAL FINDINGS
(Continued)

The drawdowns prepared by the Clerk-Treasurer, for submission to the IFA for payment, are not reviewed by anyone else at the City. Although the Mayor signs the drawdown requests as required, the requests are not reviewed for compliance with reporting requirements.

2. The consulting engineering firm inserted Suspension and Debarment compliance language into the bid specifications for the construction projects. The City relied upon the consultants engaged by the IFA to ensure that Suspension and Debarment compliance requirements were met for other vendors paid from the SRF funds. The City also relied upon these same consultants to ensure that Davis-Bacon Act compliance requirements were met for construction payments paid from the SRF. An oversight or review process has not been established.
3. The APVs prepared by the Clerk-Treasurer are approved by the Board of Public Works and Safety (Board), based upon an APV register submitted at a meeting. The actual APVs with the attached invoices are not individually reviewed by the Board. No documentation was noted that the APVs were reviewed for compliance with Activities Allowed or Unallowed, and Allowable Costs compliance requirements.

The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis.

In order to have an effective internal control system, it is important to have proper segregation of duties, and to ensure that the activities of paid consultants are monitored. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity. Additionally, the City did not have a system in place to ensure the work product provided by consultants relates to Activities Allowed or Unallowed, Allowable Costs, Davis-Bacon Act, Suspension and Debarment, and Reporting requirements was adequate, complete, and accurate.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above. We also recommended that the City's management establish controls to effectively monitor consultants to ensure compliance related to the grant agreement and compliance requirements that have a direct and material effect on the program.



1969 Central Ave. Lake Station, IN 46405

CORRECTIVE ACTION PLAN

FINDING 2013-001

Contact Person Responsible for Corrective Action: Brenda Samuels, Clerk-Treasurer
Contact Phone Number: (219) 962-3111, ext. 318

Description of Corrective Action Plan:


Lack of Segregation of Duties

The City has not separated incompatible activities due to the size of the Clerk-Treasurer's Office and the availability of staff. The Clerk-Treasurer's Office will review the segregation of duties and separate the approval function, the accounting/reconciliation function, and the asset custody function when possible. When these functions cannot be separated, a detailed supervisory review of related activities will be required.

Monitoring of Controls

The Clerk-Treasurer's Office will design, implement and monitor a system of internal controls. The Clerk-Treasurer's Office implement controls over the receipting, disbursing, recording and accounting for financial activities. When these controls cannot be implemented, a detailed supervisory review of related activities will be required.

Anticipated Completion Date: March 30, 2015


(Signature)

Clerk Treasurer
(Title)

01-14-15
(Date)


(Signature)

Mayor
(Title)

1/14/15
(Date)


(Signature)

Council President
(Title)

1/14/15
(Date)



1969 Central Ave. Lake Station, IN 46405

CORRECTIVE ACTION PLAN

FINDING 2013-002

Contact Person Responsible for Corrective Action: Brenda Samuels, Clerk-Treasurer
Contact Phone Number: (219) 962-3111, ext. 318


Description of Corrective Action Plan: The Clerk-Treasurer's Office will implement a procedure whereby the Police Department staff will reconcile with the Clerk-Treasurer's Office staff grant balances, payroll and general ledger expenditures, and drawdown receipt reports to assure that reports submitted are accurate, and has proper documentation to ensure a proper system of internal controls on the Schedule of Expenditures of Federal Awards (SEFA).

Anticipated Completion Date: June 30, 2015


(Signature)

Clerk Treasurer
(Title)

01-14-15
(Date)


(Signature)

Mayor
(Title)

1/14/15
(Date)


(Signature)

Council President
(Title)

1/14/15
(Date)



1969 Central Ave. Lake Station, IN 46405

CORRECTIVE ACTION PLAN

FINDING 2013-003

Contact Person Responsible for Corrective Action: Brenda Samuels, Clerk-Treasurer
Contact Phone Number: (219) 962-3111, ext. 318

Description of Corrective Action Plan: The Clerk-Treasurer will establish a system of internal controls, including segregation of duties related to monitoring compliance with the federal grant agreement's requirements, including activities that are allowed or not allowed, allowable costs, and documenting and reporting compliance with the requirements. The Clerk-Treasurer will also review the accounts payable vouchers and monitor and document the monitoring of consultant activities to ensure compliance with all requirements of the grant agreement, including, but not limited to Davis-Bacon requirements.

Anticipated Completion Date: April 30, 2015


(Signature)

Clerk Treasurer
(Title)

01-14-15
(Date)


(Signature)

Mayor
(Title)

1/14/15
(Date)


(Signature)

Council President
(Title)

1/14/15
(Date)

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS

FINANCIAL CONCERNS

Overdrawn Cash Balances

The financial statement included the following funds with overdrawn cash balances at December 31, 2013:

Fund	Amount Overdrawn
General Fund	\$ 2,017,131
Refuse Department	49,670
Park and Recreation Fund	35,334
Municipal Complex	211,288
Water Utility Operating	<u>35,755</u>
Total	<u>\$ 2,349,178</u>

As noted above, the General Fund was overdrawn by \$2,017,131 at December 31, 2013. It should also be noted that the City's General Fund cash balance has been consistently overdrawn at December 31 of each year since 2007 as follows:

Year Ended December 31	Ending Cash Balance
2013	\$ (2,017,131)
2012	(1,957,818)
2011	(1,683,903)
2010	(1,850,962)
2009	(1,995,148)
2008	(1,149,332)
2007	(548,698)

The General Fund's cash position at December 31, 2013, would have been a larger overdrawn balance except for the interfund loans it received from various funds as described below:

This is the second year for which the Water Utility Operating fund had an overdrawn cash balance at December 31. The overdrawn balance was due to a temporary interfund loan of \$50,000 provided to the General Fund in December 2013 and not repaid until 2014.

The Municipal Complex fund overdrawn cash balance was due to a temporary interfund loan of \$250,000 given to the General Fund in December 2013 and not repaid until 2014.

The City's cash balance per the financial statement at December 31, 2013 was \$1,957,360. However, certain funds are not available for City use. The Court funds do not run through the City's accounting system and are not available for City disbursements. Debt service and debt

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

proceed funds are restricted by debt covenants and agreements to be spent for debt service or the purpose for which the debt was issued only. After reducing the reported ending balance for Court, debt service and debt proceed funds, the City's net ending cash balance was (\$16,355).

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)

Customer Meter Deposits - Water Utility

The Water Utility requires a customer meter deposit on all accounts. The meter deposits are to be recorded in the Water Deposit fund. A Guarantee Deposit register is to be maintained by individual customer of all meter deposits on hand. The Guarantee Deposit Register should be reconciled monthly with the cash balance in the Water Deposit fund.

Prior to 2011, all meter deposits were maintained in the Water Utility Operating fund. In 2011, the Water Utility created a Water Deposit fund. All meter deposits collected in 2011 through 2013 were recorded in the Water Deposit fund; however, no transfers were made from the Water Utility Operating fund to account for collections prior to 2011. Thus, the combined cash balance of the Water Utility Operating and Water Deposit funds must be at least equal to, if not greater than, the balance of the Guarantee Deposit Register at any given time.

A detailed deposit register as of December 31, 2013, had a balance of \$181,531. The Water Utility Operating and Water Deposit funds' cash balances at December 31, 2013, were only (\$35,755) and \$68,270, respectively. Refunds of customer deposits for 2011 through 2013 are being paid from the Water Utility Operating fund.

The Water Deposit fund shared a bank account with the Water Utility Operating fund. Due to the overdrawn operating fund cash balance, customer deposits were used to fund operations.

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 records presented for audit indicated the following expenditures in excess of budgeted appropriations for 2013:

<u>Fund</u>	<u>Excess Amount Expended</u>
General Fund	\$ 1,665,000
Park GO	23,276
Park Non-Reverting Fund	16,705

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

Other issues noted related to appropriations:

1. Review of the appropriation ledger determined that the budget as recorded exceeded the budget as approved by the Indiana Department of Local Government and Finance (DLGF). The budget recorded agreed to the budget approved by the Common Council.
2. Additional review of the appropriation ledger determined that the funds which issued Tax Anticipation Warrants (loans) did not record the interest on the loan against the budget. Although the repayment of the principal does not require an appropriation, the interest was recorded with the principal as unappropriated.
3. Many of the funds of the City were required to be locally appropriated by the Common Council. The Common Council adopted Ordinance 2013-08 on September 19, 2013, to budget these funds for the calendar year 2013. Disbursements were made from these funds prior to adoption of the budget.

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."

Indiana Code 6-1.1-18-10 states:

"(a) If the proper officers of a political subdivision make an appropriation for an item which exceeds the amount which they are permitted to appropriate under this chapter, they are guilty of malfeasance in office and are liable to the political subdivision in an amount equal to the sum of one hundred and twenty-five percent of the excess so appropriated and court cost.

(b) Upon the relation of a taxpayer who owns property which is subject to taxation by the political subdivision, the appropriate prosecuting attorney shall initiate an action in the name of this state to recover the amount for which the proper officers of the political subdivision are liable under this section."

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 therefore unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Water Bond Ordinance

The Common Council approved Ordinance 2012-20 on October 25, 2012, concerning the issuance of revenue bonds for the construction and improvements to the Water Utility of the City. Two sets of revenue bonds were issued for this project; one in December 2012, and the other in 2013. Both were sold to the Indiana Finance Authority through the State Revolving Loan Fund.

The bond ordinance has several sections regarding the treatment and use of income and revenues of the Waterworks. However, we noted that the City did not comply with several bond ordinance requirements for the treatment and use of income and revenues of the Utility.

Ordinance 2012-20, Section 10, states in part: ". . . a sufficient amount of the revenues of the System so that the balance in the Operation and Maintenance Fund shall be sufficient to pay the expenses of operation, repair and maintenance of the System for the then next succeeding two (2) calendar months."

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

The financial consultant for the bond issue, in a letter to the City, estimated that the operating fund should have a balance of \$141,200 each month in 2013. As noted in the following table, the City only met that requirement for one month in 2013.

	End of Month Cash Balance	Monthly Required Amount	Difference Underfunded (Requirement Met)
January	\$ 141,013	\$ 141,200	\$ 187
February	143,780	141,200	(2,580)
March	14,347	141,200	126,853
April	(16,973)	141,200	158,173
May	(36,654)	141,200	177,854
June	71,285	141,200	69,915
July	(3,447)	141,200	144,647
August	9,521	141,200	131,679
September	39,208	141,200	101,992
October	63,880	141,200	77,320
November	(17,449)	141,200	158,649
December	(35,755)	141,200	176,955

Ordinance 2012-20, Section 10, states in part:

"The moneys credited to the Operation and Maintenance Fund shall be used for the payment of the reasonable and proper operation, repair and maintenance expenses of the System on a day-to-day basis, but none of the monies in such fund shall be used for transfers for payments-in-lieu of property taxes, depreciation, replacements or improvements . . ."

Ordinance 2012-20, Section 12, states in part:

"Improvement Fund - After meeting the requirements of the Operation and Maintenance Fund and the Sinking Fund set forth above, the City shall transfer to the Improvement Fund from the Revenue Fund on or before the last day of each calendar month a sufficient amount of Net Revenues to be used for transfers for payments-in-lieu of property taxes, improvements to, replacements of, additions to and extensions of the System . . ."

A transfer of \$225,000 was made from the Water Utility Operating fund to the City's General Fund for payment in lieu of taxes (PILOT). The City did not have an improvement fund. Additionally, there was only one month in 2013 where any revenues could have been transferred to an improvement fund for PILOT and that was only in the amount of \$2,580. Therefore the Utility made PILOT transfers of \$222,420 to the City's General Fund when there were insufficient revenues to meet the funding requirements of the bond ordinance.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

Fund Sources and Uses

The following issues with the use of funds were noted:

1. A portion of Fire Department employee benefits (FICA, Unemployment, Medicare) totaling \$3,924, payable from the General Fund, were reallocated and recorded in the Motor Vehicle Highway and Sewage funds.
2. The Stormwater MS4 fund paid the insurance deductible which was related to former City employees. This was unrelated to the purpose or operations of the Stormwater MS4 fund.
3. The primary funds that paid for the various liability insurance coverage were Sewage (\$93,900), Water Utility Operating (\$35,000), Motor Vehicle Highway (\$59,587), General Fund (\$28,478) and Local Road and Street (LRS) (\$18,000). Other funds paid smaller amounts. The liability insurance costs for the law enforcement coverage itself exceeded what was paid by the General Fund. There was no documentation to support the allocation of the insurance to any of the funds. Additionally, the payment for the insurance from the LRS fund did not comply with the statutory uses for the fund as set forth in Indiana Code 8-14-2-5.
4. The City incurred finance charges to finance the payment of the insurance coverage, due to the insurance broker having to go outside the standard market to obtain coverage. This change required the City to pay the insurance differently than it had in the past, which required it to finance the payments.
5. The third deputy in the Clerk-Treasurer's Office was paid from General Fund until April 2013. One pay was then charged to the Sewage fund and all remaining payrolls were charged to the Water Utility Operating fund. The employee performs duties related to all City funds, not just the Water Utility. No cost allocation plan was developed.
6. Gas and electric invoices for City Hall, Fire/Ambulance, Street Lighting, and other City buildings were paid from the Sewage and Water Utility Operating funds in 2013. These bills, totaling \$117,342, would have normally been paid from the General Fund.
7. Various disbursements were made for "promotion of business" from the Sewage, Water Utility Operating, Refuse Department, and Stormwater MS4 funds. These disbursements included purchase of hams for food pantry and employees, candy for 4th of July parade, food for City movie nights and September Fest. Utility and user charge funds were used for purchases not related to the operation of the Utilities.

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)

Indiana Code 8-14-2-5 states:

"Money from the local road and street account shall be used exclusively by cities, towns, and counties for:

- (1) engineering, land acquisition, construction, resurfacing, maintenance, restoration, or rehabilitation of both local and arterial road and street systems;

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (2) the payment of principal and interest on bonds sold primarily to finance road, street, or thoroughfare projects;
- (3) any local costs required to undertake a recreational or reservoir road project under IC 8-23-5; or
- (4) the purchase, rental or repair of highway equipment."

It appears legislative intent is for local road and street account distributions to be used only for direct expenses incurred in the construction, reconstruction, or maintenance of arterial and local roads and streets in cities and towns. This would prohibit the use of such funds for building buildings or for such indirect costs as administrative salaries or supplies, goods, or materials not used directly for one of the aforementioned purposes. (Cities and Towns Bulletin And Uniform Compliance Guidelines, September 2011)

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."

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 for Cities and Towns, Chapter 7)

Indiana Code 36-9-25-11(a) states in part:

"In connection with its duties, the board may fix fees for the treatment and disposal of sewage and other waste discharged into the sewerage system, collect the fees, and establish and enforce rules governing the furnishing of and payment for sewage treatment and disposal service. The fees must be just and equitable and shall be paid by any user of the sewage works and . . . the owner of every lot, parcel of real property, or building that is connected with and uses the sewage works of the district by or through any part of the sewerage system."

Subsequent Events - Riverboat Fund Transfer

The Council approved Resolution 2014-10 on August 21, 2014. Based upon this resolution, the City transferred \$420,000 from the Riverboat - Infrastructure fund to the General Fund. The transfer to the General Fund did not comply with the City's Interlocal agreement for use of the Riverboat - Infrastructure fund.

The City receives Riverboat distributions from Lake County based upon an Interlocal cooperation agreement that the City agreed to in 1997. The Interlocal agreement states in part:

- "6. Uses of Money. The Municipalities agree to restrict the use of their share of the proceeds for the purposes of Infrastructure improvements. For the purpose of this Interlocal agreement, Infrastructure improvements shall include the following provisions as set forth in I.C. 8-14-1 et seq: . . ."

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)

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Impact on Independent Auditor's Report

An explanatory paragraph was added to the Independent Auditor's Report which states the assumption that the City will continue as a going concern. City officials should continue to assess the financial situation of the City to ensure a sustainable resolution to the material deficit cash balances has been determined.

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)

CREDIT CARDS

Resolution No. 2011-13 "Resolution of the Board of Works of the City of Lake Station, Indiana amending the Resolution Authorizing the Use of City Credit Cards, Resolution No. 2004-08" was passed by the Board of Public Works and Safety on September 20, 2011. The following are from the resolution:

- "3. That the city credit card shall only be used for City expenditures, including seminars, food and lodging, City emergencies allowed by State Statute or City Ordinance, and expenditures of the promotional funds pursuant to City Ordinance."
- "5. That each expenditure paid by the credit card must reflect a credit line for the purchase, and a receipt for the expenditure shall be delivered by the purchaser to the Clerk-Treasurer."
- "6. That the expenditure reflected on the credit card statement shall not be paid by the Clerk-Treasurer unless the receipt for the purchase is delivered to the Clerk by the purchaser. In the event the purchaser does not deliver the receipt for the purchase, the purchaser shall be personally liable for any late payment fees."

Our examination of forty-three charges made using the City credit card, for the period June 27, 2013 through December 23, 2013, noted that:

1. Twelve of the charges totaling \$1,027 for meals did not contain adequate itemization.
2. Six of the charges were for meals while the employee(s) were in nontravel status.

Resolution 2011-13 does not specifically address the allowability of local meals being charged to City funds.

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

Our examination of these credit card charges also found that six charges were disbursed from inappropriate funds. Examples include:

1. School supplies were disbursed from the Water Utility Operating, Sewage, and Stormwater MS4 funds.
2. Gift cards acquired for movie night were disbursed from Sewage funds.
3. A Christmas planning lunch meeting was disbursed from the Sewage fund.

As of the credit card statement closing date of January 26, 2014, the City had an outstanding balance on their credit card account that consisted of: \$83.04 in interest, \$75.60 in late fees, and \$47.23 of outstanding charges from August 2013 (net of credits).

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.
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)

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

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 for Cities and Towns, Chapter 7)

PENALTIES, INTEREST, AND OTHER CHARGES

The audit report for calendar year 2009, Report B37677, contained a comment that the City had incurred penalties and interest of \$635.94. The audit report for calendar year 2010, Report B39644, also contained a comment the City had incurred late fees, finance and interest charges, and over limit fees of \$241.86. Report B39644 also requested the Clerk-Treasurer reimburse the City \$241.86, which was done on September 21, 2011, and noted in Report B39644.

The City reimbursed the Clerk-Treasurer \$241.86 on July 3, 2012, with Accounts Payable Voucher 21650 and Check 16950. The reimbursement was for the payment the Clerk-Treasurer had made on September 21, 2011, to the City, for the fees and interest charges addressed in the 2010 report. Review of the June 21, 2012 Common Council meeting noted the Mayor stating the following: "there was no derelict of duty from our Clerk-Treasurer. Brenda Samuels paid those out of her own pocket until the City could reimburse her. The amount was for \$241.86. I entertain a motion to reimburse Brenda." The Common Council passed the motion 7-0 to reimburse the Clerk-Treasurer.

The Clerk-Treasurer repaid the City \$241.86 on December 30, 2014, City Receipt Number 67173.

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.

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)

NONGOVERNMENTAL EXPENSES AND DONATIONS

The City spent \$57,433 in 2013 from the promotion budget of the City, which was paid from various funds. This included \$20,068 paid from utility and user charge funds including the Water Utility Operating, Sewage, Refuse Department, and Stormwater MS4 funds.

Some of the promotion (\$11,192) of the City expenditures in 2013 included:

1. Donations to churches and other organizations such as Building Together, a children's cancer foundation.
2. \$5,278 spent on turkeys and hams for "seniors, food pantry and employees" according to the description on an Accounts Payable Voucher.

The Annual Financial Report filed by the City for 2013 did not report the financial assistance (donations) made by the City to nongovernmental entities as required.

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

Other disbursements from the utility and user charge funds unrelated to the operations of the funds included "sponsorship" of City baseball program totaling \$5,400, candy for 4th of July parade totaling \$1,113, and \$7,550 for items for September Fest.

Every effort should be made by the governmental unit to avoid unreasonable or excessive costs. (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 for Cities and Towns, Chapter 7)

Governmental funds should not be donated or given to other organizations, individuals, or governmental units unless specifically authorized by statute. IC 36-10-2-4 and 5 allow cities and towns to establish, aid, maintain, and operate libraries, museums, cultural historical and scientific facilities and programs, community service facilities and programs, neighborhood centers, community centers, civic centers, convention centers, auditorium arenas, and stadiums. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 5-11-1-4(a) 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 in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

LOANS BETWEEN FUNDS

A temporary loan was made between funds in 2013 without the approval of the Common Council, the fiscal body of the City. The temporary loan of \$200,000 was made to the General Fund from the Municipal Complex fund on May 3, 2013. Resolution 2013-03 authorizing the loan was approved by the Board of Public Works and Safety on May 7, 2013, after the temporary loan had been made.

On October 2, 2013, the Common Council approved temporary loans to the General Fund with resolution 2013-07. The Municipal Complex and the Water Utility Operating funds were overdrawn by \$211,288 and \$35,755, respectively, at December 31, 2013, due to the loans made to the General Fund and not repaid by year end.

Indiana Code 36-1-8-4, concerning temporary loans, states in part:

"(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 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 fund that is in need of money for cash flow purposes.

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (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.
- (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."

NONUSE OF PURCHASE ORDERS

The City does not utilize purchase orders to encumber/reserve appropriations when purchases are initiated. The City had previously implemented purchase orders but discontinued use of the forms as the City Departments were using the form after the purchase was made instead of beforehand. The lack of use of purchase orders has contributed to the City overspending both appropriations and cash for various funds.

Indiana Code 5-22-18-5(b) states in part:

"Within thirty (30) days after the acceptance of an offer, the purchasing agent shall deliver in person or by first class mail to the successful offeror the original of each purchase order or lease, retain a copy for the purchasing agent's records, and file a copy for public record and inspection as follows:

- (1) When a purchase or lease is made for a county or municipality, the copy of the purchase order or lease must be filed with the fiscal officer of the unit."

The purchase order (General Form No. 98) is used in conjunction with City and Town Form No. 209, Ledger of Appropriations, Encumbrances, Disbursements and Balances. Provision is made for certification of an unobligated balance being available in the appropriation from which purchase is to be made, in compliance with the law.

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

This will require the encumbering of appropriations for each order as it is issued.

It is necessary that all orders pass through the hands of the Clerk-Treasurer, who is responsible for appropriation accounting.

The original will be delivered to the vendor, the duplicate copy filed with the purchasing authority and the triplicate copy filed with the Clerk-Treasurer. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 5)

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)

COMPENSATION AND SALARY ORDINANCE

The Mayor authorized the payment of a position to be split between the Motor Vehicle Highway and Stormwater MS4 funds. The salary amount paid from the Stormwater MS4 fund was not authorized by the Salary Ordinance.

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)

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)

CAPITAL ASSETS

The City has not properly maintained a complete inventory of capital assets owned as follows:

1. As stated in five prior reports, infrastructure, such as roads, pumping stations, water and wastewater distribution lines, are not included in the capital asset records.
2. Several donated properties accepted by the Board of Public Works and Safety in 2012 were not posted to the capital asset records or were posted with no value amount.
3. The acquisition or disposal of two vehicles was not recorded.
4. Engineering costs related to the water improvement project were not reflected as construction in progress.
5. The Common Council adopted a capitalization policy with Ordinance 2012-21 on October 11, 2012. The capitalization policy has a threshold to record assets with a purchase value of \$5,000 or more, and/or an anticipated life of three or more years if certain conditions are

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

met. The ordinance stated that it repealed the previous capitalization policy. However, the capital asset record was not updated to reflect the revised policy and contained numerous assets which did not meet the revised capitalization policy requirements.

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 applicable 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)

The records of each governmental unit should reflect land owned, its location, its acquisition date and the cost (purchase price). If the purchase price is not available, appraised value may be used. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

IMPROPER USE OF COURT FUNDS

The City established five funds which are not in compliance with Indiana Code 33-37-8-3, which indicates only one City User Fee fund should be established for the receipt and disbursement of these fees collected by the City Court. These cash balances, receipts, and disbursements of these funds for 2013 are:

Fund Name	Beginning Cash Balance	Receipt	Disbursement	Ending Cash Balance
Alcohol Program Monitor	\$ 1,282	\$ 2,900	\$ 3,235	\$ 947
Deferral - Police	-	30,400	20,153	10,247
Deferral - Ordinance Violation	-	30,493	20,200	10,293
User Fee LS Continuing Education	3,751	2,526	-	6,277
Deferral - Infraction	-	27,840	15,305	12,535

All disbursements of the Deferral Police, Deferral - Ordinance Violation and Deferral - Infraction funds were transferred to the General Fund in October 2013. All of the disbursements of the Alcohol Program Monitor fund were for payroll related costs.

A similar comment appeared in several prior reports.

Indiana Code 33-37-8-3 states:

"(a) A city or town user fee fund is established in each city or town having a city or town court for the purpose of supplementing the cost of various program services. The city or town fund is administered by the fiscal officer of the city or town.

(b) The city or town fund consists of the following fees collected by a clerk under this article:

- (1) The pretrial diversion program fee.
- (2) The alcohol and drug services fee.
- (3) The law enforcement continuing education program fee.

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (4) The deferral program fee.
- (5) The problem solving court fee."

Indiana Code 33-37-8-4 states:

"(a) Except as provided in subsection (b), upon receipt of monthly claims submitted on oath to the fiscal body by a program listed in section 3(b) of this chapter, the fiscal body of the city or town shall appropriate from the city or town fund to the program the amount collected for the program fee under IC 33-37-5.

(b) Funds derived from a deferral program or a pretrial diversion program may be disbursed only by the adoption of an ordinance appropriating the funds for one (1) or more of the following purposes:

- (1) Personnel expenses related to the operation of the program.
- (2) Special training for:
 - (A) a prosecuting attorney;
 - (B) a deputy prosecuting attorney;
 - (C) support staff for a prosecuting attorney or deputy prosecuting attorney; or
 - (D) a law enforcement officer.
- (3) Employment of a deputy prosecutor or prosecutorial support staff.
- (4) Victim assistance.
- (5) Electronic legal research.
- (6) Office equipment, including computers, computer software, communication devices, office machinery, furnishings, and office supplies.
- (7) Expenses of a criminal investigation and prosecution.
- (8) An activity or program operated by the prosecuting attorney that is intended to reduce or prevent criminal activity, including:
 - (A) substance abuse;
 - (B) child abuse;
 - (C) domestic violence;
 - (D) operating while intoxicated; and
 - (E) juvenile delinquency.

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (9) Any other purpose that benefits the office of the prosecuting attorney or law enforcement and that is agreed upon by the county fiscal body and the prosecuting attorney.
- (c) Funds described in subsection (b) may be used only in accordance with guidelines adopted by the prosecuting attorneys council under IC 33-39-8-5."

UTILITY RECEIPTS TAX

The Water Utility did not properly calculate the amount of Utility Receipts Tax to remit to the Indiana Department of Revenue for the calendar year 2013. The Water Utility included sales tax in their determination of total taxable receipts, but excluded receipt types such as penalties, hydrant rental fees, and reconnect fees.

These errors caused the Water Utility to overpay their Utility Receipt tax for 2013. A similar comment has appeared in prior reports.

Generally, retail receipts from all utility services consumed within Indiana are subject to the utility receipts tax regardless of the point of generation or transmission across state lines. Receipts from the provision of mobile telecommunication service are subject to utility receipts tax to the extent that the receipts are sourced to Indiana pursuant to Indiana Code 6-8.1-15. However, gross receipts received by a political subdivision for sewage and sewage service are not subject to the tax.

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 6-2.3-3-4 states:

"(a) Gross receipts do not include collections by a taxpayer of a tax, fee, or surcharge imposed by a state, a political subdivision, or the United States if:

- (1) the tax, fee, or surcharge is imposed solely on the sale at retail of utility services;
 - (2) the tax, fee, or surcharge is remitted to the appropriate taxing authority; and
 - (3) the taxpayer collects the tax, fee, or surcharge separately as an addition to the price of the utility service sold.
- (b) Gross receipts do not include collections by a taxpayer of a tax, fee, or surcharge that is:
- (1) approved by the Federal Communications Commission or the utility regulatory commission; and
 - (2) stated separately as an addition to the price of telecommunication services sold at retail."

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

PRESCRIBED FORMS - RECEIPTS

The City did not use the prescribed receipt form in the proper manner. If a receipt consisted of both cash and check, the breakdown between the payment types was not noted. The payment type and amount section of the receipt did not always include the amount of cash or check received by the various offices issuing receipts, which included the Clerk-Treasurer's Office, the Police Department, and the Park and Recreation Department.

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)



1969 Central Ave. Lake Station, IN 46405

January 28, 2015

State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, IN 46204-2765
idavid@sboa.in.gov

OFFICIAL RESPONSE FOR 2013

A) Overdrawn Cash Balances

Since we took office in 2008 many of the City Funds have a negative balance, with the General Fund taking the brunt of it. We found that many payables weren't even in the system at the time as they were found in desk drawers, on file cabinets, etc. We hired Umbaugh and Associates to help us come up with a plan to reduce this deficit and eliminating it may take a year or two more with our implemented plan. Since the City doesn't receive it's money from the County until usually the last day of the year, there is no way to know in advance how much money we will have and, knowing we must pay all previous loans (TAW's) taken in the prior year....and all Bonds, all due by December 31st, requires the City to use interfund loans to temporarily cover the cash shortfalls at the end of the year.

B) Customer Meter Deposits - Water Utility

Once we were advised in 2011 that the meter deposits should be kept in a separate fund from the water utility operating fund, we created said fund and started depositing all deposits to this fund. Refunds were still paid from the Operating Fund to gain a substantial balance in the new Meter Deposit Fund until we could research and verify what the balance in the Meter Deposit Fund should be. Now

that amount has been established, we will implement a plan in 2015 to start transferring the funds from the Operating Fund...to the Meter Deposit Fund until we have the correct balance in that Fund.

C) Appropriations

- 1) Due to the negative balance in the General Fund, the DLGF wouldn't approve our budget/appropriation, but paying our wages and bills was the only way to keep the City operating.
- 2) Being made aware there needs to be an appropriation line for the interest on the TAW loans, we will implement this in our next budget.
- 3) We were unaware this transfer was a violation and will not do so in the future.
- 4) Prior to us taking office in 2008, many funds were not in the budget submitted to DLGF. Our city attorney recommended we do this, which happened to fall at year end.

D) Water Bond Ordinance

We will not make any payments to the City for in lieu of taxes unless this requirement is met.

E) Fund Sources and Uses

- 1-5) Documentation was not requested and in fact, we did a percentage shared cost for all related departments that is why employees were shifted to different departments as they shared cost.

F) Subsequent Events - Riverboat Fund Transfer

Based on the confirmation from our financial consultant, Cender & Company, we feel the transfer was proper.

G) Impact on Independent Auditor's Report

The City has been working with financial consultants since 2008, slowly reducing this deficit.

H) Credit Cards

Those employees authorized to have a City credit card will be informed to make sure they turn in more detailed receipts, they can't use the card for meals unless travel related, and to make sure they use the proper appropriations. The Clerk Treasurers office will follow up on the documentation presented before payment.

I) Penalties, Interest, and other Charges

As noted this in the report, all amounts due have been paid.

J) Nongovernmental Expenses and Donations

Being made aware, all donations for 2014 and moving forward, will be in the Gateway system. Moving forward in 2015, no donations will be paid from the Utility Funds, nor any expenses not directly related to the purpose of each Fund.

K) Loan Between Funds

This was only done due to an emergency situation.

L) Preapproved payments of Claims

Being made aware an Ordinance through the Council is necessary instead of the Resolution of the BOW. An ordinance has already been submitted to the Council for approval.

M) Nonuse of Purchase Orders

The nonuse of purchase orders did not contribute to overspending. Not sure how to answer this. Exceeding the appropriations was due to the carryover of old cash deficits from the previous administration as discussed above. Beginning in 2014, the City no longer exceeds the appropriations approved by the DLGF and the Clerk-Treasurer's office will not approve payment of any expenses that would cause that to occur.

N) Capital Assets

- 1) Infrastructure will be assessed and included in the assets when the city can financially afford to do so.
- 2) The detail for these properties has already been researched and to the capital assets.
- 3) These vehicles now been added to the capital assets list.
- 4) We were unaware we needed to keep a "construction in progress" in our capital asset list, assuming we'd show the project as a whole upon completion. We have now added to our asset list, through 2014.
- 5) We have now deleted all assets under \$5,000.00 per Ordinance 2012-21

O) Improper use of Court Funds

We are currently working with the city attorney to take the proper steps to combine the three Deferral funds, and process expenditures per law.

P) Utility Receipts Tax

We will notify the clerk responsible for the calculation in the Water Utility so that future calculations are correct.

Q) Prescribed Forms - Receipts

Being made aware of the detail, we have contacted all departments referenced and informed them of the proper manner on December 18, 2014.

R) Receipt Issuance and Deposit

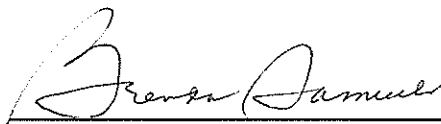
This has been corrected per police department chief.

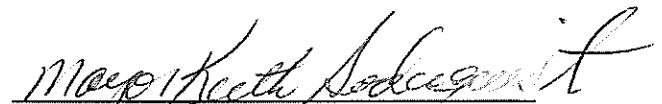
S) Buy Money - Police Department

We are taking the necessary steps to have an Ordinance drawn up to cover this and present to the council for approval.

T) Fees - Mayor's Office

Moving forward, we will make sure these discussions and votes will be reflected in the minutes as they are discussed at and approved at the meetings. The Park Board has approved these fees in January 2015 to clarify in the minutes.


Clerk Treasurer, Brenda Samuels


Mayor, Keith Soderquist

CLERK-TREASURER
CITY OF LAKE STATION
EXIT CONFERENCE

The contents of this report were discussed on January 6, 2015, with Keith Soderquist, Mayor; Brenda Samuels, Clerk-Treasurer; John McDaniel, President Pro Tempore of the Common Council; Todd Rogers, Councilperson; and James Meyer, Assistant City Attorney.

CITY COURT
CITY OF LAKE STATION

CITY COURT
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

As stated in several prior reports, City Court personnel have not reconciled the City Court Cash Book to the depository balance since September 2007. Per a cursory review of bank statements and ledger balances for the past three years, the bank balance exceeded the ledger balance at December 31, 2011, by \$17,341, at December 31, 2012, by \$12,426, and at December 31, 2013, by \$19,727.

A cursory review essentially means that the bank balance was compared to the ledger balance only taking into account outstanding checks from a listing generated from the Court's computer system. The outstanding check list was not verified as accurate. No other adjustments, such as returned checks for insufficient funds, or posting errors and omissions were taken into account.

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 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 Town Courts, Chapter 4)

CRIMINAL BONDS OVER FIVE YEARS OLD

Our review of criminal bonds on hand determined that \$54,645 of bonds had been on hand for a period of five years or longer. The City Court has not implemented policies and procedures for reporting unclaimed property and remitting that property to the Attorney General after the five year holding period.

If a bond is forfeited and the court has entered a judgment, the clerk shall transfer to the state common school fund:

1. Any amount remaining on deposit with the court (less the fees retained by the clerk); and
2. Any amount collected in satisfaction of the judgment.

The amount transferred to the State Common School fund shall be sent to the county auditor on a monthly basis as Bond Forfeitures. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 3)

CITY COURT
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 32-34-1-20(c) states in part:

"Property that is held, issued, or owed in the ordinary course of a holder's business is presumed abandoned if the owner or apparent owner has not communicated in writing with the holder concerning the property or has not otherwise given an indication of interest in the property during the following times: . . .

- (6) For property or proceeds held by a court or a court clerk, five (5) years after the property or proceeds become distributable. The property or proceeds must be treated as unclaimed property under IC 32-34-3."

Indiana Code 32-34-1-26(a) states: "A holder of property that is presumed abandoned and that is subject to custody as unclaimed property under this chapter shall report in writing to the attorney general concerning the property. Items of value of less than fifty dollars (\$50) may be reported by the holder in the aggregate."

Indiana Code 32-34-1-27(a) states: "Except as provided in subsections (b) and (c), on the date a report is filed under section 26 of this chapter, the holder shall pay or deliver to the attorney general the property that is described in the report as unclaimed."

RECEIPT ISSUANCE AND DEPOSIT

An examination of cash bond receipts for 2013 revealed that, in some cases, the Police Department did not remit collections timely to the Clerk of the City Court (Clerk). There was up to 14 days between the collection of the cash bond and the remittance to the Clerk. We also examined additional days in 2014 and noted instances where the Police Department held collections of cash bonds for up to 25 days before they were remitted to the Clerk.

Indiana Code 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

LAKE STATION CITY COURT

1969 Central Avenue
Lake Station, IN 46405

Christopher Anderson, Judge

Phone: (219) 962-2145

Lake Station City Court, "Official Response" to 2013 Audit

BANK ACCOUNT RECONCILIATIONS – COURT – The city court is and has been aware that the court cash book has not been reconciled to the depository balance. The court began working in September 2012 to reconcile the court cash book with the depository balance until the middle of 2013. In the middle of 2013, the court cash book had to be turned over to a law enforcement agency and has not been in the court's possession since that time. Without the court cash book, the court is unable to continue working to reconcile the cash book to the depository balance. As soon as the court receives the cash book back, it will continue to work on bank account reconciliations.

CRIMINAL BONDS OVER FIVE YEARS OLD – COURT – The city court is aware of Indiana Code 32-41-1-20(c) relating to Bond Forfeitures. The court is further aware that bonds are to be treated as unclaimed property after holding them for a period of five years after they become distributable. Due to the court cash book not being in the court's possession, it is impossible at this time to accurately determine which bonds have become distributable and should be remitted to the Attorney General. Upon return of the court cash book to the city court the city court will continue to work towards identifying which bonds need to be forwarded to the Attorney General and will forward same upon identification.

RECEIPT ISSUANCE AND DEPOSIT – COURT – The Lake Station City Court has had difficulty getting cooperation from the police department as it relates to the police department timely giving the city court the bonds that are collected. For years, the procedure that was used successfully was that the Court Clerk would go to the police department to pick up the bonds. When the city court hired Kim Frizzell as a Court Clerk the police department changed the procedure and refused the court access to the police department. The procedure has been changed several times. The court has reached out to the police department several times in an effort to implement a procedure that works for the police department and complies with Indiana Law. A procedure has yet to be put in place that complies with Indiana Law. It is the court's position that since the police department collects the bonds it is its duty to provide the bonds to the city court in a timely manner. The police department has refused to do so and has instead insisted on a procedure that does not comply with Indiana Law. The court will continue to attempt to work with the police department to implement a procedure that complies with Indiana Law.

Respectfully Submitted by:

Christopher Anderson
Judge, Lake Station City Court

CITY COURT
CITY OF LAKE STATION
EXIT CONFERENCE

The contents of this report were discussed on January 6, 2015, with Christopher Anderson, City Judge/former Clerk of the City Court, and Kimberly Frizzell, Clerk of the City Court.

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POLICE DEPARTMENT
CITY OF LAKE STATION

POLICE DEPARTMENT
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS

RECEIPT ISSUANCE AND DEPOSIT

Audit testing of receipts issued by the Police Department noted instances of up to 23 days between the collection of the money and the remittance to the Clerk-Treasurer for deposit. Furthermore, the receipts tested did not always indicate the form in which the funds were received (i.e., cash, check, money order). Therefore, we could not always determine if funds were remitted intact.

Audit testing of cash bond receipts for 2013 revealed that, in some cases, the Police Department did not remit collections timely to the Clerk of the City Court (Clerk). There was up to 14 days between the collection of the cash bond and the remittance to the Clerk. We also examined additional days in 2014 and noted instances where the Police Department held collections of cash bonds for up to 25 days before they were remitted to the Clerk.

Indiana Code 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

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 51-3)

BUY MONEY

An ordinance adopted by the Common Council, establishing the police buy money and approving related receipts and disbursements, was not presented for the audit.

The following procedures should be followed if a municipality wishes to obtain an appropriation and make expenditures for buy money or payments to informants:

1. under Indiana Code 36-1-3 an ordinance should be passed allowing this type of program and associated expenditures;
2. an appropriation for such purpose must be obtained in the manner authorized by state statutes;
3. petty cash fund procedures are to be followed as authorized by Indiana Code 36-1-8-3; and
4. a minimum documentation procedure must be followed, similar to either:
 - A. "Guidelines for the Expenditure of Confidential Funds," published by the U.S. Department of Criminal Justice.
 - B. "Guidelines for Obtaining and Accounting For Confidential Funds Used in Support of Criminal Investigations," (Revised S.O.P. INV-009), by the Indiana State Police Department.

(Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2013)



LAKE STATION POLICE DEPARTMENT

Chief of Police - Kevin Garber | Lieutenant - John McDaniel



1969 CENTRAL AVE. | LAKE STATION, IN 46405 | (P) 219.962.1186 | (F) 219.962.8023

January 26, 2015

Official Response

Lake Station Police Department

Attention: State Board of Accounts
302 West Washington Street
Indianapolis, IN 46204-2765
ldavid@sboa.in.gov

As of the start of 2013 the Bond transfer between the Lake Station Police Department and the Lake Station Court Clerks has been extremely challenging, due to a disgruntle ex-employee that had been laid off due to her position being dissolved and combined from the LSPD then hired into the court clerks division.

It was agreed between the departments in previous months and/or years to have the bonds transferred 2-3 times a week. LSPD trying to continue this process was turned down multiple times purposely due to the disgruntle employee. This particular employee seems to purposely aim to create issues throughout the departments.

The LSPD met with the Lake Station Court Judge to address the issue, yet saw no changes. Through multiple attempts with the Judge it was finally agreed, by the end of 2014, that the Judge, personally, would be responsible in picking up the bonds at his availability.

The LSPD has tried multiple way in which to handle the situation to avoid the delay of bond transfers but many failed to succeed. Having the Judge pick up the bonds seemed to be the only option that seems to somewhat be minimizing some of the issues.

LSPD has since documented all incidents as of July of 2013 until present date.

Please feel free to contact our department for any questions or concerns.

Respectfully,

Kevin J. Garber Sr.
Chief of Police Lake Station Police Department

POLICE DEPARTMENT
CITY OF LAKE STATION
EXIT CONFERENCE

The contents of this report were discussed on January 6, 2015, with Kevin Garber, Chief of Police; Christina Guillen, Administrative Assistant; and John McDaniel, Lieutenant.

The contents of this report were discussed on January 6, 2015, with Keith Soderquist, Mayor; Brenda Samuels, Clerk-Treasurer; John McDaniel, President Pro Tempore of the Common Council; Todd Rogers, Councilperson; and James Meyer, Assistant City Attorney.

PARK DEPARTMENT
CITY OF LAKE STATION

PARK DEPARTMENT
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

The City's Park Department collects money for shelter rental, pool admissions and concessions, and other Park programs/activities. Controls over the Park collections had the following deficiencies:

Receipt Issuance

1. Receipts are not issued for locker rentals.
2. Receipts issued for the rental of Park shelters were issued to other persons; not the actual persons signing the rental agreement in order to avoid the higher nonresident rental fee.
3. Receipts issued did not always designate whether the collections were in cash or check; therefore, we were unable to determine if monies were deposited in the same form in which they were received.
4. The receipts are deposited in batches in sequential order with the last receipt for the sequence noted in the receipt book with the date and total amount of the deposit. Review of the deposits to the receipts indicated that subsequent checks and receipts were included with these batches.
5. We reviewed 33 bank deposits and found that 85 percent were deposited from 6 to 23 days after the collections were received by the Park Department.
6. Revenue from Yoga and Zumba classes, rental space for the rummage sale, and entry gate collections for nonresidents are receipted in the Park Donation Fund rather than the Park Non-Reverting Fund.

Cabin and Shelter Rentals

1. To rent a cabin or shelter at the Park, a Facility/Shelter Use Permit is to be completed and signed by the lessee agreeing to the rules for renting the property. Permits issued for cabin and shelter rentals were not always signed or were signed by a different person than the lessee listed on the permit.
2. The shelter policy states that an individual forfeits their refund if they cancel within two weeks of the rental. We noted that refunds were issued after the date per the rental agreement without any explanation. Therefore, we could not determine if the policy for issuing refunds was being followed.

Park Programs

1. The Park Department hosts a Halloween Trick or Treating in the Park. Tickets are issued for admission, food, drinks, and hayrides. The costs range from \$5 for admission to \$.50 for drinks. The tickets are not pre-numbered. The tickets are redeemed for admission, food, drinks, or the hayride. Since the tickets are not pre-numbered, we were unable to determine if collections for tickets sold were deposited.

PARK DEPARTMENT
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

2. The Park Department offers Zumba and Yoga classes. Individuals sign a consent form to participate in the class. The receipts are made out to Zumba or Yoga instead of the individual that is taking the class. As a result, we could not verify if all the individuals who signed a consent form paid for the class.
3. The Park issued pre-numbered tickets during the summer months of 2013 for nonresidents' entry into the Park. Cost of each ticket was \$3 per car. A spreadsheet was maintained at the gate that included the ticket number issued and license plate number. The spreadsheet totals did not always agree with the tickets issued or with the amount receipted. As a result, we were unable to determine if all money collected at the gate was deposited.

Concessions

Concessions are sold at the public swimming pool and the baseball games. Controls over concessions were not adequate to determine the profits earned or if all collections were remitted to the Clerk-Treasurer by the Park Department. Concession inventories and reconcilements to purchases and sales are not performed.

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)

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)

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)

Indiana Code 5-13-6-1(d) requires cities and towns to deposit all funds not later than the next 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.

Public funds deposited should be deposited in the same form in which they were received. This simply means all daily receipts received by the political subdivision should be deposited intact. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit.

The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payers. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

PARK DEPARTMENT
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

SEPTEMBER FEST

1. Tickets were issued for the purchase of beverages. A ticket sales report was not completed indicating the number of tickets sold and the amount of collections. There was no reconciliation of the actual collections to the tickets sold.
2. Collections for beverages of \$2,711 were remitted to the Clerk-Treasurer on September 16, 2013, 15 days after the end of the event.
3. A written contract was not entered into between the City and the operator of the carnival rides for September Fest. The City did not receive any commission on the revenues generated from the operations of the carnival rides. The expense bore by the City for electrical costs cannot be determined.

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)

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The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and corresponding names of the payers. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

Assets of the governmental unit may not be used in a manner unrelated to the functions and purposes of the governmental unit. (Accounting and Uniform Compliance Guidelines 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 for Cities and Towns, Chapter 7)



1969 Central Ave. Lake Station, IN 46405

January 28, 2015

State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, IN 46204-2765
idavid@sboa.in.gov

OFFICIAL RESPONSE FOR 2013 - PARK DEPARTMENT

A) Receipt Issuance

- 1) Will be included with 'Daily Attendance and Sales'.
- 2) Will only issue receipts to the actual person renting the shelter.
- 3) Receipts are always marked whether paid in cash or check.
- 4) We are currently batching our receipts and deposits correctly.
- 5) We are currently making deposits either daily or 3 times a week.
- 6) For 2015 we are posting to Non-Reverting.

B) Cabin and Shelter Rentals

- 1) Currently only the person renting the shelter signs the Permit. We double check that the last page is signed.
- 2) We currently document cancellations/refunds appropriately.

C) Park Programs

- 1) All tickets for "Halloween in the Park" will be numbered.
- 2) Zumba and Yoga are no longer offered at the Park. In the future, if there are any similar events offered, receipts will be written only to the individuals, not the event.

3) The Park no longer charges entrance fees.

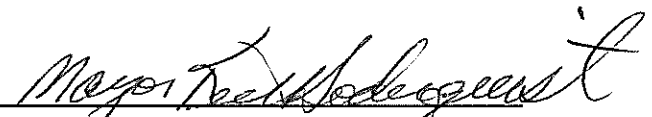
D) Concessions

Our goal is to keep inventory on a daily basis. Currently, deposits are made daily for concession and pool. A calculator tape for transactions made for concession will be kept with the daily log. There is a report on file for the baseball program on concessions

E) September Fest

Moving forward a running record will be kept with the amount of the tickets which will be numbered for identification. An agreement with the Carnival operator will be approved by the Park Board/Board of Works for any future events identifying monetary amounts. Carnival operators used generators, no City electricity was used.


Clerk Treasurer, Brenda Samuels


Mayor, Keith Soderquist

PARK DEPARTMENT
CITY OF LAKE STATION
EXIT CONFERENCE

The contents of this report were discussed on January 14, 2015, with Keith Soderquist, Mayor; R. Jerome Burton Jr., Park Superintendent; David Bruns, President of the Park Board; Brenda Samuels, Clerk-Treasurer; and Paula Genovese, Park Secretary.