

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

EXAMINATION REPORT
OF
TOWN OF SCHNEIDER
LAKE COUNTY, INDIANA
January 1, 2006 to December 31, 2007



FILED
06/25/2008

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Financial Information:	
Schedules of Receipts, Disbursements, and Cash and Investment Balances	4
Notes to Financial Information	5-6
Supplementary Information:	
Schedule of Capital Assets.....	7
Schedule of Long-Term Debt	8
Examination Results and Comments:	
Condition of Records	9
Cities and Towns Annual Report (CTAR).....	10
Sales Tax Not Remitted.....	10
Water Construction Fund.....	10
Cash Change Fund	10-11
Register of Investments	11
Deposits.....	11
Employee Reports Not Filed.....	11
Appropriations.....	11-12
Accounts Payable Vouchers and Disbursements	12-13
Public Purchases Law	13
Approval of Forms	13
Capital Asset Policy	13
Overdrawn Cash Balances.....	13-14
Police Department Receipts and Fees	14
Exit Conference.....	15
Official Response	16-31

OFFICIALS

Office

Official

Term

Clerk-Treasurer

Ray E. Bowman

01-26-04 to 12-31-11

President of the Town Council

Richard E. Ludlow
Richard M. Wright

01-01-06 to 12-31-07
01-01-08 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the financial information presented herein of the Town of Schneider (Town), for the period of January 1, 2006 to December 31, 2007. The Town's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the Town for the years ended December 31, 2006 and 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not a required part of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

April 8, 2008

TOWN OF SCHNEIDER
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Years Ended December 31, 2006 And 2007

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ (2,189)	\$ 348,222	\$ 312,686	\$ 33,347
Motor Vehicle Highway	(6,413)	13,419	13,167	(6,161)
Local Road and Street	41,557	7,247	17,942	30,862
Law Enforcement Continuing Education	1,081	273	-	1,354
Police Insurance Proceeds	2,605	-	-	2,605
Riverboat	10,862	2,984	-	13,846
Donations	1,215	532	100	1,647
Deferral Program	2,742	19,711	11,970	10,483
Cumulative Capital Improvement	4,733	1,133	1,197	4,669
Major Moves	-	7,538	-	7,538
Proprietary Funds:				
Water Utility - Operating	(20,876)	82,191	47,572	13,743
Water Utility - Debt Service	-	159,347	137,399	21,948
Water Utility - Depreciation	21,005	3,000	24,005	-
Water Utility - Customer Deposits	6,576	952	159	7,369
Wastewater Utility - Operating	6,515	65,701	52,042	20,174
Wastewater Utility - Debt Service	4,263	5,847	17,701	(7,591)
Fiduciary Fund:				
Payroll	(16,486)	116,082	98,786	810
Totals	<u>\$ 57,190</u>	<u>\$ 834,179</u>	<u>\$ 734,726</u>	<u>\$ 156,643</u>

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds:				
General	\$ 33,347	\$ 346,781	\$ 353,141	\$ 26,987
Motor Vehicle Highway	(6,161)	20,398	10,315	3,922
Local Road and Street	30,862	49,424	49,659	30,627
Law Enforcement Continuing Education	1,354	170	224	1,300
Police Insurance Proceeds	2,605	-	2,605	-
Riverboat	13,846	3,058	7,142	9,762
Donations	1,647	4,532	4,200	1,979
Deferral Program	10,483	14,007	15,509	8,981
Cumulative Capital Improvement	4,669	6,635	5,522	5,782
Major Moves	7,538	15,606	15,322	7,822
Proprietary Funds:				
Water Utility - Operating	13,743	61,807	69,086	6,464
Water Utility - Debt Service	21,948	32,040	42,189	11,799
Water Utility - Customer Deposits	7,369	5,504	8,092	4,781
Wastewater Utility - Operating	20,174	85,610	100,826	4,958
Wastewater Utility - Debt Service	(7,591)	20,787	22,176	(8,980)
Fiduciary Fund:				
Payroll	810	99,107	104,664	(4,747)
Totals	<u>\$ 156,643</u>	<u>\$ 765,466</u>	<u>\$ 810,672</u>	<u>\$ 111,437</u>

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

TOWN OF SCHNEIDER
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety, highways and streets, culture and recreation, general administrative services, water, and wastewater.

Note 2. Fund Accounting

The Town uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Town in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

TOWN OF SCHNEIDER
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 4. Property Taxes

Property taxes have not been billed or collected timely each year since 2004. The final settlement of the 2004 taxes payable in 2005 was distributed to the various governmental entities in March 2006. For the 2005 taxes payable in 2006, the tax bills were mailed to Lake County residents in August 2006. They were due in two installments on August 29, 2006, and November 14, 2006. The final settlement of the 2005 taxes payable in 2006 was distributed to the various governmental entities on January 4, 2007. For the 2006 taxes payable in 2007, the tax bills were mailed to Lake County residents in January 2008. They were due in one installment on January 31, 2008. The final settlement of the 2006 taxes payable in 2007 was distributed to the various governmental entities on March 20, 2008.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 6. Subsequent Event

Property tax rates and levies for 2007 taxes payable in 2008 were not established by February 15, 2007, as required by state statute due to the delay in the completion and approval of the trending ratio study used in determining the assessed value of each property within Lake County. Currently, the officials expect to mail in July 2008 the tax bills for the spring installment, normally due May 10.

TOWN OF SCHNEIDER
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2007

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

General infrastructure assets (those reported by governmental activities) are included regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

All balances are reported net of accumulated depreciation.

	Ending Balance
Governmental activities:	
Capital assets, being depreciated	
Land	\$ 24,247
Infrastructure	572,555
Buildings	114,598
Equipment	86,740
Vehicles	43,000
Total governmental activities, capital assets being depreciated	\$ 841,140
Business-type activities:	
Water Utility:	
Capital assets, being depreciated	
Land	\$ 2,248
Pipes and hydrants	11,870
Wells	3,773
Buildings	8,725
Equipment	9,583
Total Water Utility capital assets	36,199
Wastewater Utility:	
Capital assets, being depreciated:	
Land	-
Pipes, inlets	255,661
Lift stations	33,171
Buildings	34,553
Equipment	7,000
Total Wastewater Utility capital asset	330,385
Total business-type activities capital assets being depreciated	\$ 366,584

TOWN OF SCHNEIDER
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2007

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Loans payable:		
Police cars	\$ 26,670	\$ 10,371
Police lawsuit	13,073	5,469
Chipper shredder and lawn tractor	<u>12,826</u>	<u>4,144</u>
Total governmental activities debt	<u>\$ 52,569</u>	<u>\$ 19,984</u>
Business-type Activities:		
Water Utility		
Revenue bond:		
\$155,000 waterworks revenue bonds of 2006	<u>\$ 146,730</u>	<u>\$ 19,808</u>
Wastewater Utility		
Loans payable:		
\$186,000 refunding wastewater loan of 2005	<u>160,702</u>	<u>17,731</u>
Total business-type activities debt:	<u>\$ 307,432</u>	<u>\$ 37,539</u>

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS

The following deficiencies, relating to the recordkeeping that were cited in the prior report, were again present:

1. Not all financial activity was recorded in the records of the Town, including the receipt of property taxes and the subsequent purchase of a certificate of deposit, receipt and subsequent payment of a tax anticipation warrant, receipt and repayment of a loan.
2. Posting errors were made both within a fund and between funds. Generally, these errors were erroneous posting to the wrong account numbers and/or fund.
3. Reconcilements of the record balances to the depository balances were performed two to three months after the close of the month. In addition, the reconciliation for December 2007 included items in error.
4. Adjustments found during the reconciliation process were not recorded in the Ledger.
5. The reconcilements between the Ledger and the depository accounts indicate an overall excess ledger balance of \$3,910.56.
6. Documentation was not attached to the accounts payable voucher to explain why \$8,798.86 was disbursed in January 2007 from Fund 602, Water Debt Service Fund, to Fund 101, General Fund, for back payroll due. The Debt Service Fund does not include a budget line item for payroll.

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)

Indiana Code 5-13-6-1(e) states in part: "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."

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

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)

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

CITIES AND TOWNS ANNUAL REPORT (CTAR)

Completed annual reports for 2006 and 2007 were not presented for audit. Annual reports were not published for 2006 and 2007.

Indiana Code 5-3-1-3(a) states in part: "Within sixty (60) days after the expiration of each calendar year, the fiscal officer of each civil city and town in Indiana shall publish an annual report of the receipts and expenditures of the city or town . . ."

SALES TAX NOT REMITTED

The Town collected sales taxes from customers who rented the community building. Collections for sales taxes were \$88.50 in 2006 and \$157.80 in 2007. The collections were not remitted to the Indiana Department of Revenue.

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

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

WATER CONSTRUCTION FUND

Ordinance 2006-16 concerns the issuance of \$155,000 in Waterworks Revenue Bonds of 2006. Section 8 of the ordinance indicates that the proceeds of the bond issue are to be deposited into a Water Construction Fund. The proceeds of the bond issue were posted to the Water Debt Service Fund on December 22, 2006.

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)

CASH CHANGE FUND

In February 2004, a Cash Change Fund was created for \$200. The amount of the fund was not approved by the Town Council as required by statute.

Indiana Code 36-1-8-2 states:

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

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

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

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

REGISTER OF INVESTMENTS

Register of Investments, General Form 350, was not used to record investment activity.

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

DEPOSITS

As stated in the three prior reports, some receipts were deposited later than the next business day. Twenty-nine percent of receipts reviewed were deposited between five and nine days after receipt.

Indiana Code 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

EMPLOYEE REPORTS NOT FILED

General Form 100R, Certified Report of Names, Addresses, Duties and Compensation of Public Employees, was not filed for the years 2006 and 2007.

A list of public employees was not filed with the Lake County Treasurer at any time during 2006 or 2007.

Indiana Code 5-11-13-1 states in part: "Every state, county, city, town, township, or school official . . . shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and addresses of each and all officers, employees, and agents . . . and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

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

APPROPRIATIONS

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

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

Fund	Years	Excess Amount Expended
Infraction Deferral Program (IDP) Fund 321	2006	11,970.09
Local Law Enforcement Continuing Education (LLCE) Fund 233	2007	224.00

The Town Council did not approve an appropriation for these funds in the years listed. The amounts listed are the actual disbursements for the year.

For the funds that did have appropriations, the budgets were not posted to the Town's Ledger for either 2006 or 2007 to allow for disbursements to be monitored in accordance with the approved 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."

The following is a list of funds which require city/town council approval of an appropriation: Deferral Program (IC 34-28-5-1) and Local Law Enforcement Continuing Education Fund (IC 5-2-8). (Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2000, Page 12)

ACCOUNTS PAYABLE VOUCHERS AND DISBURSEMENTS

We observed the following deficiencies regarding disbursements:

1. Four of eighteen (22%) of the accounts payable vouchers tested did not contain adequate supporting documentation, such as receipts, invoices, and other public records. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.
2. Mileage Claim, General Form 101, was not used for reimbursement for mileage incurred on behalf of the Town.
3. No written contract with the Town attorney was provided.
4. Some disbursements were improperly posted to the unappropriated category.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Mileage Claim, General Form 101, is designed to serve as a claim for mileage to be presented to the board for allowance. Officers and employees may be reimbursed for actual miles traveled in their own motor vehicles on official business of the city or town at a reasonable rate per mile as fixed by ordinance or resolution of the board. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

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

Disbursements should be paid from properly authorized line items. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PUBLIC PURCHASES LAW

As stated in the prior report, the Town of Schneider has not adopted a purchase policy to govern purchases under \$25,000.

Indiana Code 5-22-8-2 states:

"(a) This section applies only if the purchasing agent expects the purchase to be less than twenty-five thousand dollars (\$25,000).

(b) A purchasing agent may make a purchase under small purchase policies established by the purchasing agency or under rules adopted by the governmental body."

APPROVAL OF FORMS

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

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)

CAPITAL ASSET POLICY

As stated in the prior report, the Town hired a consultant to create capital asset records for the Town. In conjunction with the records, the consultant also developed a capital assets policy to assist in the development of the capital asset records. This policy was not approved by the Town Council.

The governing body should establish a capitalization policy that sets a dollar amount as a threshold to be used in determining which items will be recorded. (Cities and Towns Bulletin and Uniform Compliance Guidelines, December 2004)

OVERDRAWN CASH BALANCES

The cash balances of the Motor Vehicle Highway (MVH) Fund (\$6,161) and the Wastewater Debt Service Fund (\$7,591) were overdrawn as of December 31, 2006, by the respective amounts listed.

The cash balances of the Payroll Fund (\$4,747) and the Wastewater Debt Service Fund (\$8,980) were overdrawn as of December 31, 2007, by the respective amounts listed.

TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

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)

POLICE DEPARTMENT RECEIPTS AND FEES

For the nine handgun permit applications issued, no record of receipts collected could be found for three (33%) and the proper fee was not collected for another three (33%).

Indiana Code 35-47-2-3 states in part:

"(b) The law enforcement agency which accepts an application for a handgun license shall collect the following application fees:

- (1) From a person applying for a four (4) year handgun license, a ten dollar (\$10) application fee, five dollars (\$5) of which shall be refunded if the license is not issued.
- (2) From a person applying for a lifetime handgun license who does not currently possess a valid Indiana handgun license, a fifty dollar (\$50) application fee, thirty dollars (\$30) of which shall be refunded if the license is not issued.
- (3) From a person applying for a lifetime handgun license who currently possesses a valid Indiana handgun license, a forty dollar (\$40) application fee, thirty dollars (\$30) of which shall be refunded if the license is not issued."

TOWN OF SCHNEIDER
EXIT CONFERENCE

The contents of this report were discussed on April 8, 2008, with Ray E. Bowman, Clerk-Treasurer; Richard M. Wright, President of the Town Council; and Diana Wilson, Deputy Clerk-Treasurer. The official response has been made a part of this report and may be found on pages 16 through 31.

CONDITION OF RECORDS

The following deficiencies, relating to the recordkeeping that were cited in the prior report, were again present.

Not all financial activity was recorded in the records of the Town.

1. The receipt of the tax anticipation warrant (TAW) of \$21,999.62 and repayment of the TAW balance owed from 2005 of \$21,999.62 were not recorded during 2006. Both should have been recorded in the General Fund.

The tax anticipation warrant was refinanced at Kentland Bank the outstanding balance of the TAW was paid from proceeds of the refinancing and no money was ever exchanged between the Town and Kentland Bank. As such the Clerk felt that there was no reason to record this information in the form of a receipt or accounts payable voucher (APV) because it would not have appeared in the bank statement. In the future the Clerk will request that the bank deposit the money and make an then electronically withdraw the money, which will generate a receipt and APV on the Towns records.

2. The receipt of general property taxes of \$50,000.00 and the purchase of a certificate of deposit of \$50,000.00 were not recorded in 2007. Both should have been recorded in the General Fund.

The Town received a Tax Advance. The tax advance being larger than the amounts needed to operate the town at the time was broken into to deposits. The first being into the General Fund the 2nd into a CD at Chase Bank, The amount deposited into the General Fund was receipted in. The CD was kept on file for Audit Review. The clerks office in the future will deposit the entire amount into the general fund and create an APV for the purchase of the CD. When the \$50,000.00 CD came due in November 2007 it was deposited plus interest into the General as Sale of Investment and not as Property Tax.

3. The receipt of a new loan for the chipper shredder of \$17,966.87 and the repayment of the old loan of \$17,966.97 were not recorded during 2006. Both should have been recorded.

The response for this comment is identical to the response to item number 1 above. The Town never received any cash at the time of the transaction nor did it write an check for the payment and therefore neither would appear in the bank statements for reconciliation.

Posting errors were made within a fund and between funds for receipts.

1. in 2006 \$25,000.00 TAW receipts were posted to miscellaneous receipts instead of properly to TAW loans.

There is no line item within the Keystone Computer system set up for TAW receipts and being as such the Clerk used the miscellaneous receipts line item

to receipt in the funds from the TAW. A new line item has been created in Keystone software to specifically receipt in any future TAW funds.

2. In 2006 \$29,135.38 in disbursements was posted to dept principle instead of TAW loans un-appropriated. The first category uses an appropriation, where the other category has the disbursement property posted to un-appropriated funds.

Similar to the response for item one there were no line items set up in the Keystone Software for TAW repayment. The next logical thing was to use the dept principle line item being that a TAW is debt for the town. A new disbursement line item has been set up for future TAW loans.

3. State disbursements was posted to the wrong fund and/or account number \$2,734.87 during 2006 and \$610.20 during 2007.

The statements received from the automatic deposits were read in error and deposits made to the wrong line item, but the correct account. During balancing these items were seen and placed in the correct line item for 2006. The 2007 item will be corrected.

4. License excise taxes of \$5,291.95 were posted to the wrong account in 2006.

The \$5,291.95 was disbursed to the Town as part of a request for Tax Advance from the county and as such was posted as an advance to the general fund via miscellaneous funds. In the future the clerk will record the funds as tax funds to ensure the correct line item is used for recordkeeping.

5. General property taxes of \$4,672.69 were posted to miscellaneous receipts in 2007.

The \$4,672.69 was disbursed to the Town as part of a request for Tax Advance from the county and as such was posted as an advance to the general fund via miscellaneous funds. In the future the clerk will record the funds as tax funds to ensure the correct line item is used for recordkeeping.

6. In 2006, court docket police training fees of \$154.00 for the infraction deferral program (IDP) were posted to the Local Law Enforcement Continuing Education Fund in error.

Upon initial set up of the IDP fund the ordinance read that IDP monies for training were to be deposited into the LLCE fund, when the ordinance was updated this was changed to be a line item in the IDP fund. The Clerk followed the ordinance as was originally set forth.

7. During 2007, the water penalties, wastewater penalties and the trash penalties were posted to the wrong account. They were posted to regular billings account for each of the areas instead of each penalties account.

During the 2004 and 2005 audit the Clerk discussed with the auditor the fact that there was no line item in the annual report for penalties on the annual report and the auditor was asked if it was necessary to track these items separately given that they were reported separately in the Keystone Billing software. The auditor did not think it was necessary so for ease of posting beginning in 2007 penalties were combined with billing receipts for recording purposes. The clerk continues to believe that this is the correct way to report

these items given that they are not part of the annual report and will continue to record the items along with the billing receipts.

Timely reconcilements of the record balances to the depository balances were not prepared.

1. Reconciling was performed two to three months after the close of the month.

The clerk attempts to reconcile on a monthly basis, but has fallen behind at times due to the cumbersome and intensive manual process due to errors in Software set up that the clerk has presented to the Council who have been reluctant to have a software specialist correct.

2. A review of the reconciliation for December 2007 showed many errors. Several items on the reconciliation remain listed for months when follow up should be taken by the officials. These items include deposits in transit and voided checks. On the December 2007 reconciliation there are some deposits in transit from 2006. Some checks were listed as positive amounts on the outstanding check listings when they should have been listed as negative amounts. Beginning balances of certain bank accounts were not shown on the summary page. A check order was listed as outstanding as of October 31, 2007, but the disbursement has already been made. Beginning balances of certain bank accounts were incorrect on the detail pages by fund. Several that were outstanding at year end were not included in the outstanding check listing. On one fund, the detail of the outstanding checks incorrectly showed the total of the checks that had cleared in the month. The outstanding check listing for one fund incorrectly included \$9,505.72 of outstanding checks or transfers of another bank account for the same fund.

December 2007 reconciliation was not entire complete at the end of the audit do to a change from Kentland Bank to Chase Bank and a new form of check processing, which has left the clerk with a lack of understanding of the new bank statements, which come in four parts at different times of the month. Unlike the Kentland statements the Chase statements do not allow the clerk to line up individual receipts to the amount on the statement and therefore has created a labor intensive process for breaking out the receipts, which the clerk spoke to the auditor about and discovered that the Chase statements are troublesome at other municipalities as well. As a result the clerk spoke with the auditor and council president and starting on May 1, 2008 will begin the process of moving the Town accounts back to Kentland Bank.

The October check order that was mentioned above was not on the bank statement for October, but did appear on an account analysis later. The item was reconciled in November as a result.

Being a manual process at this time there are errors in the reconciliation that need to be corrected, but can only be corrected by having the Keystone

Software set up correctly by a software specialist. Human errors are bound to continue until this is allowed by the Council.

Adjustments were made during the reconciliation process, but these adjustments were not recorded in the ledger.

1. In 2006 an adjustment was made to the General Fund and the Local Road and Street Fund of \$17,941.87. The disbursement was originally posted to the General Fund, but in the reconciliation process the activity was cleared through the Local Road and Street Fund.

The purchase of the chipper shredder was for the street department and the payments were made from the correct account by the wrong line item. The total of this was corrected in the reconciliation process. Being that the reconciliation is done outside of the Keystone Software and that set up of Keystone is not correct and the clerk uses the reconciliation numbers and not the Keystone numbers they were tracked only were the clerk would use the numbers. In the future regardless of Keystones operability the clerk will post the adjustment to Keystone for audit purposes.

2. In 2007 a check for \$37,646.10 for police cars was not posted to the ledger. In the reconciliation process, the activity was cleared through three funds – Police Insurance Fund, \$2,605.00, Deferral Program Fund \$3,395.00, and General Fund \$31,646.10. These funds and amounts were not the same as was listed on the accounts payable voucher.

At the time the check was written from the payment of the new police cars written from the general fund and the disbursement was corrected during reconciliation, where a transfer by the council should have been made from each individual fund to the general fund. The amounts shown above are the correct amounts \$2,505.00 from the proceeds of a police car that was previously totaled by the towns insurance company, the \$3,395.00 from the IDP fund for the down payment and the amount of Loan Proceeds from Old National Bank in the amount of \$31,646.10 from the General Fund. In the future the clerk will request the transfer from the council to ensure audit compliance.

3. Voided Checks were noted in the reconciliation process, but no entry was posted to the Ledger to indicate that these checks are now void.

Again the clerk relies on the reconciliation for fund balances and not Keystone and therefore they voided checks were noted in the reconciliation and not in Keystone, in the future the clerk will post the void checks in the software as well as in the reconciliation.

The reconciliements between the Ledger and the bank accounts are out of balance.

1. At December 31, 2007, the various bank accounts for the Town, the cash was short in the Town bank accounts of \$3,100.09.

At the time of the Audit the reconciliation was not complete due to the change from Kentland Bank to Chase Bank, the auditor stated during exit interview that funds were not believed to be missing, but miss posted and would balance out upon final reconciliation.

2. At the December 31, 2007, for the various bank accounts for the Water Utility, the cash was short in the Water bank accounts \$1,655.53.

At the time of the Audit the reconciliation was not complete due to the change from Kentland Bank to Chase Bank, the auditor stated during exit interview that funds were not believed to be missing, but miss posted and would balance out upon final reconciliation.

3. At the December 31, 2007, for the various bank accounts for the Wastewater Utility, the cash was over in the Wastewater bank accounts of \$845,06.

At the time of the Audit the reconciliation was not complete due to the change from Kentland Bank to Chase Bank, the auditor stated during exit interview that funds were not believed to be missing, but miss posted and would balance out upon final reconciliation.

Documentation was not attached to the accounts payable voucher to explain why \$8,798.86 was disbursed in January 2007 from Fund 602, Water Debt Service Fund to Fund 101, General Fund, for back payroll due. The debt service fund does not have any payroll paid from it.

Due to lack of Operating Funds in the Water Utility payroll has often needed to be covered by the General Fund, after the Audit of 2004 and 2005 the clerk requested that transfer of funds from the Debt Service fund because there was excess funds available, which to cover the payroll. The transfer was made and should have been made to the Water Operating line item, which is allowable, and then transferred to the Payroll Fund. In the future the clerk will transfer the funds to Water Operating if necessary prior to transferring to the Payroll Fund to ensure audit compliance.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manuals for Cities and Towns, Chapter 7)

The clerk was unaware of certain forms such as the mileage form. These forms have been ordered from Boyce Forms to ensure compliance in the future.

At all times, the manual and / or computerized records, subsidiary ledgers, control ledger, and reconciled bank balances 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)

Indiana Code 5-13-6-1(e) state in part: "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.

All financial transactions pertaining to the government unit should be recorded in the records of the governmental unit. (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).

CITIES AND TOWNS ANNUAL REPORT (CTAR)

Completed annual reports for 2006 and 2007 were not presented for audit. Annual reports were not published for 2006 and 2007.

Indiana Code 5-3-1-3(a) states in part: "Within sixty (60) days after the expiration of each calendar year, the fiscal officer of each civil city or town in Indiana shall publish an annual report of the receipts and expenditures of the city or town"

The inability to correctly operate the Keystone software and lack of training on the annual report has made the very complicated CTAR forms difficult at best to complete. The Clerk has attempted to complete the electronic form of these reports as many clerks across the state has struggled at best. A concerted effort will be made to submit the 2007 forms and publishing of forms will be made upon completion of year end.

TAXES NOT REMITTED TIMELY

The Water Utility collects sales taxes for utilities and remits them to the Indiana Department of Revenue on a monthly basis. The prior report indicated that the Town paid penalties and interest to the Indiana Department of Revenue for the late payment of Indiana sales tax.

The filing and payment of the monthly sales taxes were late between two and fourteen days for one month in 2006 and five months in 2007.

Penalties and interest totaling 5.01 were paid to the Indiana Department of Revenue on November 10, 2006 for the late and insufficient sales tax remittance for September 2006. We requested the Clerk Treasurer reimburse the Town for the \$5.01 in penalty and interest payments.

The Town withholds federal taxes, social security, Medicare, and state taxes from the employees' pay. The town is also responsible for the employer portions of social security and Medicare. The prior report indicated that the Town paid penalties and interest to both the Internal Revenue Service (IRS) and the Indiana Department of Revenue for the late payment of withholding taxes.

The monthly electronic funds transfer payment of the federal withholding, social security, and Medicare was late by 23 days for April 2006. For 2007, the payments were late by 15 days and 48 days for two months of twelve (17%). The IRS waived the penalties on these late payments.

For state withholding taxes in 2007, for of the twelve (33%) monthly remittances were filed between two and 35 days late. The Indiana Department of Revenue waived any penalties on these late payments.

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

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

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

Officials and employees have a duty to pay claims and remit taxes in a timely fashion failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit. Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the

responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7).

SALES TAX NOT REMITTED

The Town collected sales taxes from customers who rented the community building. Collections for sales taxes were \$88.50 in 2006 and \$157.80 in 2007. The collections were not remitted to the Indiana Department of Revenue.

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

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

Clerk was unsure whether or not these could be remitted under the current sales tax ID used for the Water Department for the Town or another would have to be set up with the State; remittance was held until audit to verify. Auditor stated that the Town would need to set up a new Sales Tax number to remit for the Town. The Clerk will set up the new number and begin remitting and will remit the past amounts as well.

WATER CONSTRUCTION FUND

Ordinance 2006-16 concerns the issuance of \$155,000 in Waterworks Revenue Bonds of 2006. Section 8 of the ordinance indicates that the proceeds of the bond issue are to be deposited into a Water Construction Fund. The proceeds of the bond issue were posted to the Water Debt Service Fund on December 22, 2006.

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).

Clerk was not aware of a new fund being set-up by bond council when ordinance was drafted and placed funds in the most logical fund for debt. A new fund will be set up on the books for Construction Fund and money transfer to correct fund and tracked accordingly.

CASH CHANGE FUND

In February 2004 a cash change fund was created for \$200.00. The amount of the fund was not approved by the Town Council as required by statute.

Indiana Code 36-1-8-2 states: "... (a) The fiscal body of a political subdivision may permit any of its officers or employees having a duty to collect cash revenues to establish a cash change fund. Such a fund must be established by a warrant drawn on the appropriate fund of the political subdivision in favor of the officer or employee, in an amount determined by the fiscal body without need for appropriation to be made for it. (b) The officer and employee who established a cash change fund shall convert the warrant to cash, shall use it to make change when collecting cash revenues, and shall account for it in the same manner as required for other funds of the political subdivision. (c) The fiscal body shall require the entire cash change fund to be returned to the appropriate fund whenever there is a change of custodian of the fund or if the fund is no longer needed.

As there was a change fund prior to the Clerk taking office it didn't seem necessary to go through this process. The Clerk will put on the April agenda for 2008 the approval of the change fund to be in audit compliance.

REGISTER OF INVESTMENTS

Register of Investments, General Fund No. 350, was not in use. The officials purchased and sold many certificates of deposit during the period.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7).

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

The Clerk kept all CDs in a binder for review at audit. The correct SBOA forms have been ordered from Boyce Forms to place in the binder for audit compliance.

DEPOSITS

As stated in the three prior reports, some receipts were deposited later than the next business day. Twenty-nine percent of receipts reviewed were deposited between five and nine days after receipt.

Indiana Code 5-13-6-1(d) state: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an

ordinance adopted by the city or the town; and (2) approved as depositories of the state funds.”

The Clerk has improved this item by processing checks via electronic scan, however it would still be impossible to deposit funds everyday, do to the fact that there is no bank in the Town of Schneider to deposit cash monies into and it is far to costly to make daily trips to the bank.

EMPLOYEE REPORTS NOT FILED

General Form No. 100R, Certified Report of Names and Addresses, Duties and Compensation of Public Employees was not filed for the years 2006 and 2007.

A list of public employees was not filed with the Lake County Treasurer at any time during 2006 and 2007.

Indiana Code 5-11-13-1 states, in part: “Every state, county, city, town, township, or school official ... shall during the month of January of each year prepare, make and sign a written or printed certified report, correctly and completely showing the names and addresses of each and all officers, employees, and agents ... and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the State Board of Accounts.”

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

The Clerk filed these reports on time for 2008 and was unaware of the items until the audit period had ended. Future reports will be filed as necessary and mandated.

CUSTOMER METER DEPOSITS

We observed the following deficiencies regarding customer meter deposits:

1. Three customers (of eighteen or 17%) who paid customer meter deposits of \$271.10 were not listed in the detail of the Meter Deposits Report showing all customer meter deposit activity.
2. One customer received water service in 2007, but did not pay the meter deposit of \$90.45.

A customer was allowed to make payment arrangements for their meter deposit and had failed to make the payments as scheduled. The

reimbursement of the customers landlord/parent was held until deposit was made. The check to the landlord/parent was deposited after audit and the balance of the deposit was transferred from the operating fund and placed as an adjustment to the customers account.

3. Five customers (of twelve or 42%) had disbursement totaling \$281.23 for customer meter deposits posted to the Water Operating Fund in error. They should have been posted to the Customer Meter Deposit Fund. Errors like these can explain why the detail and control of the Customer Meter Deposit Fund was unable to be reconciled in the past.

This was a software set up issue that has been resolved a Meter Deposit line item was in place for both the Operating Fund and the Deposit Fund. The line item for the Operating Fund was renamed to ensure that it was not used in the future.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balances 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).

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 regulations. 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).

APPROPRIATIONS

The records presented for audit indicate the following expenditures in excess of budgeted appropriations.

Fund	Year	Excess Amount Expended
Infraction Deferral Program (IDP) Fund 321	2006	11,970.09
Local Law Enforcement Continuing Education (LLCE) Fund 233	2007	224.00

For the funds that did have appropriations, the budgets were not posted to the Town's Ledger for either 2006 or 2007. With the lack of posting of the

appropriations, it would be difficult for the officials to know how much appropriation is left to spend during the year.

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 the article."

The following is a list of funds which require city/town council approval of an appropriations: Deferral Program (Indiana Code 34-28-5-1) and Local Law Enforcement Continuing Education Fund (Indiana Code 5-2-8). (Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2000, Page 12).

The Clerk was under the understanding that non-governmental funds i.e. non tax monies would not have to be budgeted, similar to enterprise funds such as the utilities and therefore a budget was not drawn up for either LLCE Fund or IDP Funds to appropriate expenditures and as such no additional appropriation of funds. Monies spent from the IDP Fund were almost exclusively tied to Indiana code requiring the Clerk to submit collected funds each month to the County Clerk. IDP and LLCE Funds are budgeted for 2008 to be in compliance with state codes and audit requirements.

ACCOUNTS PAYABLE VOUCHERS AND DISBURSEMENTS

We observed the following deficiencies regarding disbursements:

1. Four of eighteen (22%) of the accounts payable vouchers tested did not contain adequate supporting documentation, such as receipts, invoices, and other public records. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

The Clerk will no longer allow payment without invoice or signature of a department head to ensure that documentation is provided for each payment to ensure audit compliance.

2. Mileage Claim, General Form No. 101, was not used to submit reimbursement for mileage on behalf of the Town.

In an effort to save money the Town utilized forms created locally, to comply with SBOA Audit requirements forms have been ordered from Boyce Forms. Also state form no 101 for mileage will be utilized for proper compliance with this comment.

3. There is no written contract with the Town Attorney.

Attorney Mark Psimos has been contacted to draw up a contract for the remainder of 2008 and going forward he will have to submit the contract for approval at the January meeting each year to ensure audit compliance.

4. Some disbursements were improperly posted to the un-appropriated category.

The Town does not have a line item for everything that larger municipalities would utilize on a more regular basis and therefore the Clerk has used the un-appropriated category in error. In the future the Clerk will submit to the council and get approval for a new line item.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7).

Indiana Code 5-11-10-1.6(c) states in part: "The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless there is a fully itemized invoice or bill for the claim."

Mileage Claim, General Form No. 101, is designed to serve as a claim for mileage to be presented to the board for allowance. Officers and employees may be reimbursed for actual miles traveled in their own motor vehicles on official business of the city or town at a reasonable rate per mile as fixed by ordinance or resolution of the board (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4).

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

Disbursements should be paid from properly authorized line items. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7).

PUBLIC PURCHASES LAW

As stated in the prior report, the Town of Schneider has not adopted a purchase policy to govern purchases under \$25,000.

Indiana Code 5-22-8-2 states:

“(a) This section applies only in the purchasing agent expects the purchase to be less than twenty-five thousand dollars (\$25,000).

(b) A purchasing agent may make a purchase under small purchase polices established by the purchasing agency or under rules adopted by the governmental body.”

Indiana Code 5-22-8-3 states in part:

“(a) This section applies only if the purchasing agent expects the purchase to be:
(1) at least twenty-five thousand dollars (\$25,000); and
(2) not more than seventy-five thousand dollars (\$75,000).

(b) A purchasing agent may purchase supplies under this section by inviting quotes from at least three (3) persons known to deal in the lines or classes of supplies to be purchased.

(c) The purchasing agent shall mail in an invitation to quote to the persons described in sub-section (b) at least seven (7) days before the time fixed for receiving quotes.

(d) If the purchasing agent receives a satisfactory quote, the purchasing agent shall award a contract to the lowest responsible and responsive offeror for each line of class of supplies required.

The Town Attorney has been contacted and will be working with the Town Council to create a new ordinance that guides purchases for items under \$25,000. The Clerk has also contacted the Town of Lowell for a copy of their policy to use as a model for the Town of Schneider policy to ensure audit compliance.

APPROVAL OF FORMS

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

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7).

The Clerk has requested a copy of The Town of Lowell’s letter to the State Board of Accounts as stated by the Auditor would be sufficient to submit to the SBOA Indianapolis office for approval, because Lowell has already had Keystone Software forms approved.

CAPTIAL ASSET POLICY

As stated in the prior report, the Town hired a consultant to develop capital asset records. The consultant developed a capital assets policy to assist in the development of capital asset records. This policy was not approved by the Town Council.

The governing body should establish a capitalization policy that sets a dollar amount as a threshold to be used in determining which items will be recorded. (Cities and Towns Bulletin and Uniform Compliance Guidelines, December 2004).

The Clerk will submit the policy on the Council's agenda for approval at the next available council meeting.

OVERDRAWN CASH BALANCES

The cash balances of the Motor Vehicle Highway (MVH) Fund (\$6,161) and the Wastewater Debt Service Fund (\$7,591.00) were overdrawn as of December 31, 2006, by the respective amounts listed.

The cash balances of the Payroll Fund (\$4,747) and the Wastewater Debt Service Fund (\$8,980) were overdrawn as of December 31, 2007, by the respective amounts listed.

The cash balances 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).

The overdrawn cash balances were fund line items only and not account bank overdrafts. Having said that the MVH Fund line item was rectified three ways: First a transfer of \$7,500 was made from the local road and street fund, which is allowable for towns under population of 500, 2nd the MVH fund for 2008 will be provided with \$15,000 of property tax monies to ensure coverage of the annual salaries needed for the operation of the street department, thirdly the council created and funded a General Labor line item in the General fund to cover some of the salaries drawn from the MVH Fund. The town needed to do this because of cuts in gas tax disbursements that have been made by the state to the MVH Fund and the LRS Fund in recent years. The Wastewater Debt Service Fund continues to be overdrawn and will be until new rates are in place to cover the expenditure of the fund and the wastewater operating fund has the funds available to cover the necessary debts.

The cash balances of the payroll fund were do to the fact that not all necessary transfers had been made at the time of the audit from the Utility Funds and

have since been rectified and transfer are done in a more timely fashion now do to changes in payroll periods being changed from monthly and bi-monthly to every other week.

POLICE DEPARTMENT RECEIPTS AND FEES

For the nine handgun permit applications issued, no record of receipts collected could be found for three (33%) and the proper fee was not collected for another three (33%).

Indiana Code 35-47-2-3 states in part: "(b) The law enforcement agency which accepts an application for a handgun permit license shall collect the following application fees.

- (1) From a person apply for a four (4) year handgun license, a ten dollar (\$10) application fee, five dollars (\$5) of which shall be refunded if the license is not issued.
- (2) From a person applying for a lifetime handgun license who does not currently posses a valid Indiana handgun license, a fifty dollar (\$50) application fee, thirty dollars (\$30) of which shall be refunded if the license is not issued.
- (3) From a person applying for a lifetime handgun license who currently possesses a valid Indiana handgun license, a forty dollar (\$40) application fee, thirty dollars (\$30) of which shall be refunded if the license is not issued.

The Clerk requested that the auditor submit the names of the individuals who did not pay for their handgun permits. When the names were received two of the three were a reserve police officer and a volunteer fireman with the Schneider Fire and Police Departments. It was determined that the Marshal had waived the fees of the Police Officer in consideration of his position. It is not known why the former Marshal did not receive payment for the other two individuals.

The error in collection was due to the fact that the law changed and it was unknown if the Town could collect the new fees without updating its ordinances. When it was determined that the ordinances would not need to be updated the fees were collected as stated in the audit.