

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

EXAMINATION REPORT

OF

CITY OF DUNKIRK

JAY COUNTY, INDIANA

January 1, 2007 to December 31, 2007



FILED
12/30/2008

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OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|---|----------------------------|--|
| Clerk-Treasurer | Jane Ann Kesler | 01-01-04 to 12-31-11 |
| Mayor | Sam Hubbard Ronald Hunt | 01-01-04 to 12-31-07 01-01-08 to 12-31-11 |
| President of the City Council | A. Craig Faulkner | 01-01-07 to 12-31-08 |
| Superintendent of the Water Utility | Dace Mumbower | 01-01-07 to 12-31-08 |
| Superintendent of the Wastewater Utility | Greg Buckner | 01-01-07 to 12-31-08 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDIANAPOLIS, INDIANA 46204-2769

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF DUNKIRK, JAY COUNTY, INDIANA

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

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

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

The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial information. It has not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

November 20, 2008

CITY OF DUNKIRK
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2007

| | Cash and Investments 01-01-07 | Receipts | Disbursements | Cash and Investments 12-31-07 |
|--|-------------------------------------|---------------------|---------------------|-------------------------------------|
| Governmental Funds: | | | | |
| General | \$ 386,824 | \$ 1,087,063 | \$ 1,087,621 | \$ 386,266 |
| Motor Vehicle Highway | 22,263 | 293,895 | 170,475 | 145,683 |
| Local Road and Street | 10,107 | 9,992 | 8,778 | 11,321 |
| Nonreverting Repair and Maintenance | (1,301) | - | - | (1,301) |
| DTR Economic Development | 196,390 | 47,130 | 84,303 | 159,217 |
| Local Law Enforcement Continuing Education | 1,182 | 1,115 | 100 | 2,197 |
| Park Nonreverting Operating | 49,513 | 19,767 | 14,892 | 54,388 |
| Planning and Zoning | (2,949) | 1,114 | 892 | (2,727) |
| Firefighting Equipment | 9,088 | 3,004 | 2,500 | 9,592 |
| Drug Free Allotment | 335 | - | 334 | 1 |
| Highlands Subdivision | 900 | - | - | 900 |
| COPS Grant | 17,094 | - | - | 17,094 |
| Fire Equipment Donation | 100 | - | - | 100 |
| Rainy Day | 7,634 | 5,241 | - | 12,875 |
| Cumulative Capital Improvement | 51,539 | 6,114 | - | 57,653 |
| Cumulative Improvement | 839 | - | - | 839 |
| Economic Development Income Tax | 18,296 | 1,654 | - | 19,950 |
| Brownfield Grant | - | 21,904 | 21,904 | - |
| Proprietary Funds: | | | | |
| Water Utility - Operating | 186,140 | 401,378 | 515,152 | 72,366 |
| Water Utility - Bond and Interest | (95,090) | - | - | (95,090) |
| Water Utility - Depreciation | 132,532 | 16,577 | - | 149,109 |
| Water Utility - Customer Deposit | 31,025 | 9,150 | 4,901 | 35,274 |
| Water Utility - Fiscal Agent SRF Sinking | - | 94,568 | 17,277 | 77,291 |
| Water Utility - Fiscal Agent SRF Debt Service Reserve | - | 100,001 | 102 | 99,899 |
| Wastewater Utility - Operating | 1,195,817 | 837,242 | 908,793 | 1,124,266 |
| Wastewater Utility - Bond and Interest | 208,908 | 118,211 | 108,365 | 218,754 |
| Wastewater Utility - Reserve | 116,600 | - | - | 116,600 |
| Wastewater Utility - Improvement | 163,938 | 2,688 | - | 166,626 |
| Wastewater Utility - Fiscal Agent SRF Sinking | - | 145,164 | 92,585 | 52,579 |
| Wastewater Utility - Fiscal Agent SRF Debt Service Reserve | - | 190,817 | 3,263 | 187,554 |
| Fiduciary Funds: | | | | |
| Police Officers' Pension | 33,143 | 12,070 | 19,562 | 25,651 |
| City Court | 3,805 | 29,979 | 24,851 | 8,933 |
| User Fees | 6,140 | 351 | 3 | 6,488 |
| Payroll | 13,483 | 1,114,320 | 1,112,662 | 15,141 |
| Totals | <u>\$ 2,764,295</u> | <u>\$ 4,570,509</u> | <u>\$ 4,199,315</u> | <u>\$ 3,135,489</u> |

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

CITY OF DUNKIRK
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety, culture and recreation, planning and zoning, water, wastewater, sanitation, economic development and general administrative services.

Note 2. Fund Accounting

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

Note 3. Budgets

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

Note 4. Property Taxes

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

Note 5. Deposits and Investments

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

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

CITY OF DUNKIRK
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Town contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

B. 1925 Police Officers' Pension Plan

Plan Description

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

Funding Policy and Annual Pension Cost

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

CITY OF DUNKIRK
NOTES TO FINANCIAL INFORMATION
(Continued)

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

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Costs

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

CITY OF DUNKIRK
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2007

The City has entered into the following debt:

| Description of Debt | Ending Principal Balance | Principal and Interest Due Within One Year |
|--|--------------------------------|---|
| Governmental Activities: | | |
| Capital leases: | | |
| Fire station house | \$ 10,000 | \$ 2,500 |
| Police car | <u>14,403</u> | <u>7,955</u> |
| Total governmental activities debt | <u>\$ 24,403</u> | <u>\$ 10,455</u> |
| Business-type Activities: | | |
| Water Utility | | |
| State Revolving Fund loan: | | |
| Water plant improvements | \$ 1,090,000 | \$ 96,610 |
| Wastewater Utility | | |
| State Revolving Fund loan: | | |
| Wastewater plant improvements | 1,152,013 | 68,408 |
| Revenue bonds: | | |
| Wastewater plant improvements | <u>525,000</u> | <u>108,885</u> |
| Total Wastewater Utility | <u>1,677,013</u> | <u>177,293</u> |
| Total business-type activities debt | <u>\$ 2,767,013</u> | <u>\$ 273,903</u> |

CITY OF DUNKIRK
EXAMINATION RESULTS AND COMMENTS

PREScribed FORMS - CITY COURT

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

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 1)

COLLECTION OF AMOUNTS DUE - POLICE PENSION

In Report B27751 for the year 2005, it was determined that the pensioner paid from the Police Pension Fund had been overpaid. After that examination, the City hired a private Certified Public Accounting (CPA) firm to review the pension paid to the pensioner. The CPA firm concluded that the pensioner had been overpaid by \$8,422. The overpayment has not been collected.

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

CONDITION OF RECORDS - PAYROLL FUND SUBACCOUNTS

As was also reported in prior reports B26084, B27751 and B30700, the balances in payroll subaccounts do not accurately reflect net pay and payroll withholdings balances at year-end. Errors have occurred in both posting receipts and disbursements to the accounts for several years with no corrections having been made.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

PENALTIES AND INTEREST - PAYROLL TAXES

Penalties and interest totaling \$919 were paid to the Internal Revenue Service in 2007 for late payment of payroll withholding taxes.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. 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)

CITY OF DUNKIRK
EXAMINATION RESULTS AND COMMENTS
(Continued)

CUSTOMER DEPOSIT REGISTER

As was also stated in prior Report B30700, the detailed Customer Deposit Register balance did not reconcile with the cash balance in the Customer Deposit Fund. Our testing disclosed that none of the deposits refunded or applied in 2007 had been posted to the Customer Deposit Register and 18% of the deposits received had not been recorded.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

ORDINANCES AND AGREEMENTS - STATE REVOLVING FUND (SRF) LOANS

The City has an SRF loan for their Water Utility and another for their Wastewater Utility. In February 2007, at the request of the SRF staff, the City entered into agreements with the Bank of New York Trust Company and established a debt service reserve account and a bond and interest sinking account for each loan. The agreements required that, after initial deposits were made to properly fund the accounts as of February 2007, continuing deposits would be made monthly into the bond and interest sinking account to accumulate funds to make principal and interest payments when due. After the initial deposits (\$372,484) which were made on February 22, 2007, deposits were made on February 27 (\$33,887), September 14 (\$52,211), and September 25, (\$35,507). Deposits were not made on a monthly basis as required.

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'S RECORD PERPETUATION FUND

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

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

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

Such fees are to be remitted by the court to the city or town fiscal officer at the end of each month. The clerk of a city or town court may use the money in the fund for the preservation of records and improvement of record keeping systems and equipment. The fund would require appropriation. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2004)

CITY OF DUNKIRK
EXAMINATION RESULTS AND COMMENTS
(Continued)

OVERDRAWN CASH BALANCES

The cash balances of the Nonreverting Repair and Maintenance Fund, Planning and Zoning Fund, and Water Utility Bond and Interest Fund were overdrawn in 2007.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COMMERCIAL REHABILITATION LOAN RECEIVABLE

At the City Council meeting on November 28, 2005, the City Council approved issuing a commercial rehabilitation loan to American Legion Post 227 in the amount of \$20,000 for a period of five years at 4% interest. The loan agreement was signed January 3, 2006; however, the Terms of Loan section of the agreement with blanks to be completed for period of the loan, amount of the monthly payment, date payments are to commence, due date of the payments and the final payment were not completed. In the text of the Terms of Loan section the interest rate is 0%, not 4% as approved by the Council. On January 4, 2007, the Legion made a payment of \$2,000. A second payment of \$2,000 was received January 8, 2008.

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

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

CITY COURT - DISTRIBUTION OF COLLECTIONS

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

In each action in which a person is:

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

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

CITY OF DUNKIRK
EXAMINATION RESULTS AND COMMENTS
(Continued)

DEPOSITS - CITY COURT

As was also stated in the prior Report B30700, in numerous instances receipts tested were deposited later than the next business day.

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

APPROPRIATIONS

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

| <u>Fund</u> | <u>Excess Amount Disbursed</u> |
|-----------------------------|--|
| Park Nonreverting Operating | \$ <u>5,492</u> |

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

| <u>Fund</u> | <u>Amount Disbursed</u> |
|--------------------------|-----------------------------|
| DTR Economic Development | \$ 84,303 |
| Firefighting Equipment | 2,500 |

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."

DEPOSITS – CITY AND UTILITIES

As was also stated in the prior Report B30700, our testing of the receipt and deposit of Utility collections and other City receipts disclosed instances where receipts were deposited later than the next business day. In addition, records were not sufficient to determine if cash and checks received for Utility payments were deposited in the same form as received. Paid bill stubs were not always clearly marked to show the form of payment, cash, check or both. The computer system in use allows for recording of the form of payment when the payment is entered in the system; however, the form of payment was not being entered and the system defaulted to show that all payments were made by check.

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."

CITY OF DUNKIRK
EXAMINATION RESULTS AND COMMENTS
(Continued)

Public funds shall be deposited in the same form in which they were received. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

BANK RECONCILIATIONS

As was also stated in the prior Report B30700, bank account reconcilements presented for examination did not always accurately reconcile the record balances to the bank account balances. The bank reconciliation for December 31, 2007, included cash necessary to balance in the amount of \$84. A bank account reconciliation and a fund report for the month of November 2007 were not presented for examination.

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)

INTERNAL CONTROLS

As was also stated in the prior Report B30700, controls over receiving and posting collections and reconciling the bank account were insufficient. The City office is staffed by two individuals, the Clerk-Treasurer and the Deputy Clerk-Treasurer. The Deputy Clerk-Treasurer bills Utility customers, receives customer payments, posts payments and adjustments to customer accounts, receives and posts park and police department collections, and performs the monthly bank reconcilements. The duties of receiving and posting collections should be separated from the duty of reconciling the bank account balances to the record cash balances. The City Council should review printouts of all adjustments made to customer accounts.

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

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

CITY OF DUNKIRK
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) a list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) the name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;
 - (B) a description of the premises, as shown by the records of the county auditor; and
 - (C) the amount of the delinquent fees, together with the penalty; or
- (2) an individual instrument for each lot or parcel of real property on which the fees are delinquent."

"(c) The officer shall record a copy of each list or each individual instrument with the county recorder. . . ."

"(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

CITY OF DUNKIRK
EXIT CONFERENCE

The contents of this report were discussed on November 20, 2008, with Jane Ann Kesler, Clerk-Treasurer; Ronald Hunt, Mayor; A. Craig Faulkner, President of the City Council; and Judith Garr, City Council Member. The officials concurred with our findings.