

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF LONG BEACH

LAPORTE COUNTY, INDIANA

January 1, 2011 to December 31, 2014



FILED
10/16/2015

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|--------------------------------------|----------------------------------|--|
| Clerk-Treasurer | Anne Heywood William DeFuniak | 01-01-08 to 12-31-11 01-01-12 to 12-31-15 |
| President of the Town Council | Robert Angelo Robert Schaefer | 01-01-11 to 12-31-11 01-01-12 to 12-31-15 |
| Superintendent of Utilities | Ronald Griffin | 01-01-11 to 12-31-15 |
| President of the Water Utility Board | Richard Blank | 01-01-11 to 12-31-15 |
| Utility Office Manager | Barbara Stupeck | 01-01-11 to 12-31-15 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE TOWN OF LONG BEACH, LAPORTE COUNTY, INDIANA

This report is supplemental to our examination report of the Town of Long Beach (Town), for the period from January 1, 2011 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Examination Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statements Examination Report of the Town, which provides our opinion on the Town's financial statements. This report may be found at www.in.gov/sboa/.

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

Any Official Response to the Examination Results and Comments, incorporated within this report, was not verified for accuracy.

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

April 23, 2015

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CLERK-TREASURER
TOWN OF LONG BEACH

CLERK-TREASURER
TOWN OF LONG BEACH
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS

Adjustments Required For Accrual Based Software Usage

The Town uses computerized accounting software to record the financial transactions. The computer software used is an accrual-based software application, but officials try to utilize it on a cash basis.

"Revenues" and "expenses" are recorded through accounts receivable and accounts payable applications, meaning that some items recorded as revenues or expenses may not have been received or disbursed during the period covered by the financial statement reporting period. The financial transactions reported were not adjusted to reflect actual cash receipts and disbursements, therefore, the Cash and Investments Balance at the end of the year were misstated.

Furthermore, the cash disbursements presented in the financial statements did not include capital asset purchases, which were capitalized, or excluded, by the computer software.

By omitting the adjustments for accounts receivables, accounts payables, and capital asset purchases, the cash and investment balances presented in the financial statements were inaccurate and did not agree to the cash and investment balances in the ledgers or to the reconciled cash and investment balances.

Negative Transactions

Numerous refunds and reimbursements were recorded in the ledgers as negative receipts and disbursements. Some of the reimbursements recorded as negative disbursements were reimbursements of Police Department payrolls awarded through federal grant awards. By recording federal grant reimbursements of payrolls as negative disbursements the Town did not accurately report federal grant awards.

Corrections Attempted

In an attempt to correct cash and investment balances presented as of December 31, 2014, the Clerk-Treasurer recorded receipts or disbursements in the financial statements which could not be verified to the activity recorded in the ledgers.

Examination adjustments were proposed and accepted by the Clerk-Treasurer to correct the financial statements for the above noted issues.

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)

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

CLERK-TREASURER
TOWN OF LONG BEACH
EXAMINATION RESULTS AND COMMENTS
(Continued)

OVERDRAWN CASH AND INVESTMENT BALANCES

The financial statements presented for examination included the following funds with overdrawn cash and investment balances at the dates indicated:

| Fund | Cash and Investment Balances | | |
|-----------------------------|------------------------------|--------------|--------------|
| | 12-31-11 | 12-31-12 | 12-31-13 |
| General Fund | \$ (840,779) | \$ (253,032) | \$ (340,962) |
| Motor Vehicle Highway | (20,315) | - | - |
| Firearms Training | - | (275) | (275) |
| Grant Money - Police Fund | (2,500) | (2,500) | (2,500) |
| Lease for Town | (233,648) | (137,164) | (139,034) |
| Old School Community Center | (8,885) | (28,865) | (48,414) |
| Trash Utility - Operating | (7,386) | - | - |

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)

CANCELLED CHECKS NOT RETURNED

The Town has not received cancelled checks or optical images of the checks from their depository accounts since August 2012.

Indiana Code 5-15-6-3 states in part:

"(a) As used in this section, 'original records' includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process described in subsection (e); and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment or the depositor receives an optical image of the deposit document after the document has been processed for the deposit. . . .

(d) No financial records or records relating thereto shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced as described in subsection (e) . . . "

CLERK-TREASURER
TOWN OF LONG BEACH
EXAMINATION RESULTS AND COMMENTS
(Continued)

COLLECTIONS

Deposits

Collections received by the Town were not deposited daily as required by state statute. Collections were generally deposited once per week.

Indiana Code 5-13-6-1(c) states in part:

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

Receipt Issuance

Receipts were written at the date of deposit rather than the date collections were received. The forms used as receipts were not always prescribed or approved by the Indiana State Board of Accounts. Permits and citations were stamped with the date paid which served as the customers' evidence of payment.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Citations for Ordinance Violations

The penalties for various ordinance violations (repeated false alarm calls, littering, fireworks, unsafe building and/or walkways, etc.) are set by ordinance at minimum or maximum amounts. The ordinances are unclear as to who is responsible for determining the actual fine or penalty.

The Town has not established a violations bureau however, the Clerk-Treasurer collects payments for ordinance violations. The Town also has not established a procedure for the collection of unpaid citations for ordinance violations.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 33-36-2-2 states:

"If the legislative body does not establish an ordinance violations bureau under section 1 of this chapter, the clerk or clerk-treasurer of the municipal corporation is designated the violations clerk for purposes of this chapter."

CLERK-TREASURER
TOWN OF LONG BEACH
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 33-36-2-3 states:

"The violations clerk may accept:

- (1) written appearances;
- (2) waivers of trial;
- (3) admissions of violations; and
- (4) payment of civil penalties up to a specific dollar amount set forth in an ordinance adopted by the legislative body, but not more than two hundred fifty dollars (\$250); in ordinance violation cases, subject to the schedule prescribed under IC 33-36-3 by the legislative body."

Indiana Code 33-36-3-1(a) states:

"Upon the appointment or designation of the violations clerk as provided by IC 33-36-2-1, the legislative body shall designate, by ordinance or code, a schedule of ordinance and code provisions of the municipal corporation that are subject to admission of violation before the violations clerk and the amount of civil penalty to be assessed to a violator who elects to admit a violation under this chapter."

Fees

Fees are collected for electric permits. However, the fees for the electric permits have not been established by ordinance.

The ordinance establishing fees for garbage and refuse collection does not address services areas for garbage and refuse, and leaf pickup, and it does not address the actual fees charged for each service. Furthermore, a public hearing was not held regarding the proposed fees.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS

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

CLERK-TREASURER
TOWN OF LONG BEACH
EXAMINATION RESULTS AND COMMENTS
(Continued)

| Fund | Disbursements In Excess of Budgeted Appropriations |
|-----------------------|---|
| General Fund | |
| 2012 | \$ 66,680 |
| Local Road and Street | |
| 2011 | 15,235 |
| Lease for Town | |
| 2011 | 500 |
| 2012 | 500 |
| 2013 | 2,500 |
| CEDIT | |
| 2014 | 13,565 |

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."

PAYROLL ISSUES

We noted the following deficiencies related to payroll:

1. Some individuals whose position and compensation were included on the salary ordinance were paid as contractors. The Town did not withhold taxes or pay the employer share of Social Security and Medicare.
2. Some individuals were paid as employees, but their rate of pay was not included on the salary ordinance.
3. Federal Forms 1099 - Misc (Miscellaneous Income) were not issued to all persons who received compensation in excess of \$600 as required.
4. Compensation for employees of the Park Department were not approved by the Park Board, nor were they included in the Town's salary ordinance.
5. The Park Department did not maintain adequate records of time worked. The employees were paid an hourly rate, but a record of the hours worked was not maintained. A calendar was provided documenting the number of hours the employees were scheduled to work.
6. Compensation paid for contractual services were recorded to accounts designated for personal services instead of in accounts designated for other services and charges.

CLERK-TREASURER
TOWN OF LONG BEACH
EXAMINATION RESULTS AND COMMENTS
(Continued)

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

Payments for services provided by an organization should go directly to the organization and not to an individual employee of the organization. All payments for services should be supported by a written contract. Compensation should be made in such a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

In referring to a park board, Indiana Code 36-10-3-10(b) states: "In a municipality, the board shall fix the compensation of officers and personnel appointed under subsections (a)(4) and (a)(5), subject to IC 36-4-7-5 and IC 36-4-7-6."

NEPOTISM

The elected officials did not file annual certifications of compliance with the nepotism law with the Clerk-Treasurer.

Indiana Code 36-1-20.2-16 states: "Each elected officer of the unit shall annually certify in writing, subject to the penalties for perjury, that the officer has not violated this chapter. An officer shall submit the certification to the executive of the unit not later than December 31 of each year."

CAPITAL ASSETS

The Town has not maintained a record of capital assets owned. The amounts originally reported for capital assets owned by the Town were based upon arbitrary estimates by the Clerk-Treasurer. The Clerk-Treasurer approved an adjustment excluding the reporting of capital assets.

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

DISBURSEMENTS FOR OFFICE CLEANING

The accounts payable vouchers for cleaning services were not properly itemized. The vendor invoices nor vouchers indicated the number of hours worked or the hourly rates. Each date shown as worked indicated a different pay amount. Because of the lack of a properly itemized vendor invoice or accounts payable voucher, we could not ascertain if the correct rates were charged.

CLERK-TREASURER
TOWN OF LONG BEACH
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-10-1.6(c) states in part:

"The fiscal officer of a municipality may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim . . ."

Because the term "itemized" has not been defined in the Indiana Code, we have recommended the following as a guide to local officials responsible for the approval and payment of claims:

A claim to be properly itemized should show the kind of service, where performed, date service rendered, by whom, rate per day, number of hours, rate per hour, price per foot, per yard, per hundred, per pound, per ton, etc.

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

CLERK-TREASURER
TOWN OF LONG BEACH
EXIT CONFERENCE

The contents of this report were discussed on June 1, 2015, with Anne Heywood, former Clerk-Treasurer.

The contents of this report were discussed on June 2, 2015, with William DeFuniak, Clerk-Treasurer, and Robert Schaefer, President of the Town Council.

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WATER UTILITY
TOWN OF LONG BEACH

WATER UTILITY
TOWN OF LONG BEACH
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS

The Utility uses computerized accounting software to record the financial transactions. The computer software used is an accrual-based software application, but officials try to utilize it on a cash basis.

"Revenues" and "expenses" are recorded through accounts receivable and accounts payable applications, meaning that some items recorded as revenues or expenses may not have been received or disbursed during the period covered by the financial statement reporting period. The financial transactions reported were not adjusted to reflect actual cash receipts and disbursements, therefore, the Cash and Investments Balance at the end of the year were misstated.

Furthermore, the cash disbursements presented in the financial statements did not include capital asset purchases, which were capitalized, or excluded, by the computer software.

By omitting the adjustments for accounts receivables, accounts payables, and capital asset purchases, the cash and investment balances presented in the financial statements were inaccurate and did not agree to the cash and investment balances in the ledgers or to the reconciled cash and investment balances.

In an attempt to correct cash and investment balances presented, the Clerk-Treasurer recorded receipts or disbursements in the financial statements which could not be verified to the activity recorded in the ledgers.

Examination adjustments were proposed and accepted by the Clerk-Treasurer to correct the financial statements for the above noted issues.

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)

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

UTILITY CHECKS NOT SIGNED BY THE CLERK-TREASURER

In 2012, the Water Utility Board authorized the Utility Clerk to sign the checks for all utility disbursements. However, the Clerk-Treasurer, by statute, is the Town's Fiscal Officer.

Indiana Code 36-5-6-2 states in part: "The clerk-treasurer . . . is both the town clerk and the town fiscal officer."

WATER UTILITY
TOWN OF LONG BEACH
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 36-5-6-6(a) states in part:

"The clerk-treasurer shall do the following:

- (1) Receive and care for all town money and pay the money out only on order of the town legislative body.
- (2) Keep accounts showing when and from what sources the clerk-treasurer has received town money and when and to whom the clerk-treasurer has paid out town money. . . .
- (5) Manage the finances and accounts of the town and make investments of town money. . . .
- (8) Issue all licenses authorized by statute and collect the fees fixed by ordinance. . . .
- (12) Perform all other duties prescribed by statute."

IC 8-1.5-3-4 requires the board over a municipally-owned water, gas or electric utility to deposit all money collected with the municipality's fiscal officer and to make monthly reports to the fiscal officer of the receipts and disbursement of money belonging to each utility.

This section, as well as the language contained in IC 36-9-23 for wastewater utilities, does not appear to require a clerk-treasurer to perform any duties other than to maintain a bank account for each utility and to sign utility warrants. It has been the position of this department for many years that the board over the utilities would decide which person would be responsible for utility billing and collection. Such person could be the clerk-treasurer or someone else. (Cities and Towns Bulletin and Uniform Compliance Guidelines, March 2006)

IC 5-13-5-2 requires all disbursements of public funds shall be made only upon checks (warrants) drawn upon depositories which shall be signed by the public officers authorized to sign in their official capacity. No other individual or group has authority to sign in place of the fiscal officer. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DEPOSITS

Utility collections were not deposited daily as required by state statute. Collections were generally deposited once per week.

Effective during the period of examination, Indiana Code 5-13-6-1(c) states in part:

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

Effective July 1, 2015, Indiana Code 5-13-6-1(g) states in part:

"The following are not required to deposit funds on the business day following receipt if the funds on hand do not exceed five hundred dollars (\$500): . . . (3) A city or a town required to deposit funds under subsection (d). However, the funds on hand must be deposited not later than the business day following the day that the funds exceed five hundred dollars (\$500)."

WATER UTILITY
TOWN OF LONG BEACH
EXAMINATION RESULTS AND COMMENTS
(Continued)

UTILITY RECEIPTS TAX

When completing the Indiana Utility Receipt Tax Return to be filed with the Indiana Department of Revenue, the Utility included deductions for public fire hydrants, but the associated hydrant revenue was not included in the collections reported. Also, revenue from penalties on delinquent payments were not included in the revenues reported.

The utility receipts tax is imposed upon the receipt of the entire taxable gross receipts of a taxpayer that is a resident or domiciliary of Indiana, and the taxable gross receipts derived from activities or business or any other sources within Indiana by a taxpayer that is not a resident or domiciliary of Indiana.

The following receipts are subject to the utility receipts tax:

1. The retail sale of utility services for consumption.
2. Judgment or settlement as compensation for lost retail sales.
3. Sales to a reseller if the utility is used in hotels, mobile home parks or marinas.
4. Sales of water or gas to another for rebottling.
5. Installation, maintenance, repair, equipment, or leasing service provided to a commercial or domestic consumer that are directly related to the deliver or utility service, and charge for removal of the equipment from such consumer upon termination for service.
6. All other receipts not segregated between retail and non-retail transactions.

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

All questions concerning the law or procedure for paying the utility receipts tax should be directed to the Indiana Department of Revenue, Indiana Government Center North, Indianapolis, Indiana, 46204, telephone number (317) 233-4015.

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

CAPITAL ASSETS

The Utility has not maintained a record of capital assets owned. The amounts originally reported for capital assets owned by the Utility were based upon arbitrary estimates by the Clerk-Treasurer. The Clerk-Treasurer approved an adjustment excluding the reporting of capital assets.

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

WATER UTILITY
TOWN OF LONG BEACH
EXIT CONFERENCE

The contents of this report were discussed on June 1, 2015, with Anne Heywood, former Clerk-Treasurer.

The contents of this report were discussed on June 2, 2015, with William DeFuniak, Clerk-Treasurer; Barbara Stupeck, Utility Office Manager; Richard Blank, President of the Water Utility Board; and Robert Schaefer, President of the Town Council.