

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF SCHNEIDER

LAKE COUNTY, INDIANA

January 1, 2011 to December 31, 2014



FILED
12/10/2015

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Examination Results and Comments:	
State Revolving Loan Activity	6
Bank Account Reconciliations.....	6
Receipt Issuance.....	6
Overdrawn Cash Balances	7
Temporary Loans Between Funds.....	7-8
Utility Operating Funds Used For Town Expenses Not Repaid.....	8
Appropriations	8
Capital Asset Records.....	9
Credit Cards	9-10
Exit Conference	11
Water and Wastewater Utilities:	
Examination Results and Comments:	
State Revolving Loan Activity	14
Bank Account Reconciliations.....	14
Receipt Issuance.....	14
Overdrawn Cash Balances	15
Temporary Loans Between Funds.....	15-16
Utility Operating Funds Used For Town Expenses Not Repaid.....	16
Capital Asset Records.....	16
Credit Cards	16-17
Exit Conference	18

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Diana L. Wilson Jenny L. Beier	10-01-10 to 12-31-11 01-01-12 to 12-31-15
President of the Town Council	Richard E. Ludlow	01-01-11 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

This report is supplemental to our examination report of the Town of Schneider (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

September 17, 2015

(This page intentionally left blank.)

CLERK-TREASURER
TOWN OF SCHNEIDER

CLERK-TREASURER
TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS

STATE REVOLVING LOAN ACTIVITY

The Town's ledger, Annual Financial Report, and financial statement for 2014, did not properly reflect the financial activity of the Town. The activity of the Water Utility's State Revolving Loan (SRF) was not included which underreported receipts by \$391,810; disbursements by \$384,455; and the ending cash and investment balance by \$7,355.

Audit adjustments were proposed, accepted by the Clerk-Treasurer, and made to the financial statement.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

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)

BANK ACCOUNT RECONCILIATIONS

The monthly depository reconciliations included \$22,553 in net adjustments for reconciling items since 2008. The Officials should determine and record the proper adjustments in the ledgers and remove the reconciling items from the reconciliation.

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)

RECEIPT ISSUANCE

The correct payment classifications were not detailed on the receipts for all the utility payments received. The payment type "Other" was marked for all utility receipts when some of the collections were cash, checks, and money orders. When multiple types were received, the amount for each type was not listed on the receipt.

In accordance with the Public Depository Law cash receipts shall be deposited daily and also should be deposited in the same form as received and should equal the total amount of the day's collections. Each receipt shall note type of receipt (cash, check, money order, EFT, bank/credit card, other). (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 5)

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

OVERDRAWN CASH BALANCES

The financial statements included the following funds with overdrawn cash balances as of December 31:

Fund	Amount Overdrawn			
	2011	2012	2013	2014
General Fund	\$ -	\$ 3,084	\$ -	\$ -
MVH	12,430	5,478	-	-
Fire	-	1,414	-	-
Wastewater Operating	73,129	95,448	78,633	36,043
Water Operating	63,868	90,206	75,973	13,502

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)

TEMPORARY LOANS BETWEEN FUNDS

Temporary loans from several utility funds to the General Fund were made in 2009 and have not been repaid as of August 12, 2015. The outstanding loans are:

Fund	Amount
Wastewater Operating	\$ 4,039
Wastewater Bond & Interest	16,500
Water Cust Deposit	3,000

A similar comment appeared in prior Report B40096.

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

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs. (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.

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

(C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.

(2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

UTILITY OPERATING FUNDS USED FOR TOWN EXPENSES NOT REPAID

During 2010, the Wastewater Operating fund paid \$4,772 for fire truck payments. As of August 12, 2015, the Wastewater Operating fund had not been reimbursed.

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner.

Establishment of a Cash Reserve Fund permits transfer of surplus utility funds to the city or town general fund. After appropriation, such transferred funds may then be used for any legal general fund purpose. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS

The following expenditures were in excess of budgeted appropriations:

Fund	Excess Amount Expended		
	2011	2013	2014
MVH	\$ 3,254	\$ -	\$ 2,560
LLCE	-	798	-
Riverboat	-	-	1,215
CAGIT	-	-	7,176
CEDIT	-	-	4,447

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

Indiana Code 36-5-4-2 states:

"Unless a statute provides otherwise, town monies may be disbursed only after an appropriation made by ordinance of the town legislative body and recorded in a book kept for that purpose by the legislative body. Each appropriation must be made from the fund against which the expenses arose."

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

CAPITAL ASSET RECORDS

The Town did not properly maintain a complete inventory of capital assets owned by the Town. In 2013, \$194,825 in capital asset purchases for the period 2008 to 2013, were added to the balance of capital assets owned by the Town. However, no detailed listing of the capital assets was provided for audit.

A similar comment appeared in prior Report B40096.

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)

CREDIT CARDS

The Town Council adopted Resolution 2010-05 on April 26, 2010, authorizing credit card use. Fuel credit card payments were made on the basis of a statement and not on the individual credit card receipt slips. A log book was not maintained for the Town credit card or for the fuel credit cards. The Town credit card and the fuel credit cards applied to the Clerk-Treasurer and the Water and Wastewater Utilities.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.

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

7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

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

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-TREASURER
TOWN OF SCHNEIDER
EXIT CONFERENCE

The contents of this report were discussed on September 17, 2015, with Jenny L. Beier, Clerk-Treasurer, and Richard E. Ludlow, President of the Town Council.

The contents of this report were discussed on September 17, 2015, with Diana L. Wilson, former Clerk-Treasurer.

(This page intentionally left blank.)

WATER AND WASTEWATER UTILITIES
TOWN OF SCHNEIDER

WATER AND WASTEWATER UTILITIES
TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS

STATE REVOLVING LOAN ACTIVITY

The Town's ledger, Annual Financial Report, and the financial statement for 2014, did not properly reflect the financial activity of the Town. The activity of the Water Utility's State Revolving Loan (SRF) was not included for \$391,810 in receipts; \$384,455 in disbursements; and an ending balance of \$7,355.

Audit adjustments were proposed, accepted by the Clerk-Treasurer, and made to the financial statement.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

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)

BANK ACCOUNT RECONCILIATIONS

The monthly depository reconciliations include \$22,553 in net adjustments for reconciling items since 2008. The Officials should determine and record the proper adjustment in the ledgers and remove the reconciliation's adjustment.

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)

RECEIPT ISSUANCE

The correct payment classifications were not detailed on the receipts for all the utility payments received. The payment type "Other" was marked for all utility receipts when some of the collections were cash, checks, and money orders. When multiple types were received, the amount for each type was not listed on the receipt.

In accordance with the Public Depository Law cash receipts shall be deposited daily and also should be deposited in the same form as received and should equal the total amount of the day's collections. Each receipt shall note type of receipt (cash, check, money order, EFT, bank/credit card, other). (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 5)

WATER AND WASTEWATER UTILITIES
TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

OVERDRAWN CASH BALANCES

The financial statements included the following funds with overdrawn cash balances as of December 31:

Fund	Amount Overdrawn			
	2011	2012	2013	2014
Wastewater Operating	\$ 73,129	\$ 95,448	\$ 78,633	\$ 36,043
Water Operating	63,868	90,206	75,973	13,502

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)

TEMPORARY LOANS BETWEEN FUNDS

Temporary loans from several utility funds to the General Fund were made in 2009 and have not been repaid as of August 12, 2015. The outstanding loans are:

Fund	Amount
Wastewater Operating	\$ 4,039
Wastewater Bond & Interest	16,500
Water Cust Deposit	3,000

A similar comment appeared in prior Report B40096.

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

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs. (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following: . . .

(3) Passes an ordinance or a resolution that contains the following: . . .

(D) A statement that the fiscal body has determined that an emergency exists.

(E) A brief description of the grounds for the emergency.

WATER AND WASTEWATER UTILITIES
TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (F) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (4) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

UTILITY OPERATING FUNDS USED FOR TOWN EXPENSES NOT REPAID

During 2010, the Wastewater Operating fund paid \$4,772 for fire truck payments. As of August 12, 2015, the Wastewater Operating fund had not been repaid.

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

Indiana Code 8-1.5-3-11(f) states: "A cash reserve fund, if authorized by ordinance, may be used to make loans to another utility owned by the same municipality, for periods not to exceed five (5) years, at any interest rate. The repayment of the loan and interest shall be returned to the cash reserve fund."

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

CAPITAL ASSET RECORDS

A complete inventory of capital assets owned by the Water and Wastewater Utilities was not properly maintained. In 2013, additions to capital assets for the period 2008 to 2013 were added, as follows: \$528,661 for the Water Utility and \$127,388 for the Wastewater Utility. However, no detailed listing of the capital assets was provided for audit.

A similar comment appeared in prior Report B40096.

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)

CREDIT CARDS

The Town Council adopted Resolution 2010-05 on April 26, 2010, authorizing credit card use. Fuel credit card payments were made on the basis of a statement and not on the individual credit card receipt slips. A log book was not maintained for the Town credit card or for the fuel credit cards. The Town credit card and the fuel credit cards applied to the Clerk-Treasurer and the Water and Wastewater Utilities.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

WATER AND WASTEWATER UTILITIES
TOWN OF SCHNEIDER
EXAMINATION RESULTS AND COMMENTS
(Continued)

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

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

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)

WATER AND WASTEWATER UTILITIES
TOWN OF SCHNEIDER
EXIT CONFERENCE

The contents of this report were discussed on September 17, 2015, with Jenny L. Beier, Clerk-Treasurer; Richard E. Ludlow, President of the Town Council; and Kevin Gray, Water and Wastewater Director.

The contents of this report were discussed on September 17, 2015, with Diana L. Wilson, former Clerk-Treasurer.