

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

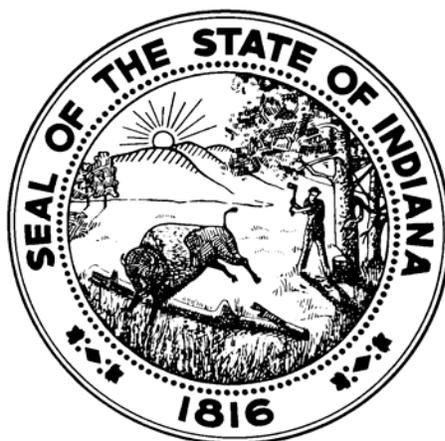
EXAMINATION REPORT

OF

CITY OF LEBANON

BOONE COUNTY, INDIANA

January 1, 2004 to December 31, 2005



FILED
08/25/2006

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report	3
Schedules of Receipts, Disbursements, and Cash and Investment Balances.....	4-5
Notes to Schedules	6-7
Examination Results and Comments:	
Internal Controls - Receipts	8
Bank Account Reconciliations	8
Annual Report.....	8
Prescribed Forms	8
Overdrawn Fund Balances	9
Payroll Withholding Fund Balances	9
City Court - Daily Deposits.....	9
City Court - Bank Reconciliations - Cash Long.....	10
City Court - Condition of the Records - Register of Funds Held In Trust.....	10
Exit Conference.....	11
Official's Response.....	12-13

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Deborah Ottinger	01-01-04 to 12-31-07
Mayor	James Acton	01-01-04 to 12-31-07
City Judge	Patricia Renner Crow	01-01-04 to 12-31-07
President of the Board of Public Works	James Acton	01-01-04 to 12-31-07
President of the City Council	Andrea Hester John W. Lasley	01-01-04 to 12-31-05 01-01-06 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

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

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF LEBANON, BOONE COUNTY, INDIANA

We have examined the schedules of receipts, disbursements, and cash and investment balances of City of Lebanon, for the period of January 1, 2004 to December 31, 2005. The City's management is responsible for the schedules. 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 schedule of receipts, disbursements, and cash and investment balances 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 schedules referred to above present fairly, in all material respects, the cash transactions of the City for the years ended December 31, 2004 and 2005, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

July 19, 2006

CITY OF LEBANON
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, 2004 And 2005

	Cash and Investments 01-01-04	Receipts	Disbursements	Cash and Investments 12-31-04
Governmental Funds:				
General	\$ 2,102,656	\$ 5,609,322	\$ 5,600,785	\$ 2,111,193
Motor Vehicle Highway	242,510	493,794	442,620	293,684
Local Road and Street	84,551	74,540	101,960	57,131
Park and Recreation	279,573	428,696	481,201	227,068
Park Nonreverting Operating	10,664	17,598	11,195	17,067
Sanitation	89,803	499,876	456,152	133,527
Law Enforcement Continuing Education	8,799	1,259	30	10,028
Police Fees	9,199	2,925	-	12,124
Deferral Program	4,812	1,721	2,219	4,314
Drug Defense	903	-	-	903
Hazardous Materials Fund	270	39	149	160
DARE Program	16	6,675	6,468	223
Fire Tower Training Facility	51,236	16,578	150	67,664
Fire Unrestricted Donation	700	550	194	1,056
Police Donation	763	500	48	1,215
Street Unrestricted Donation	434	-	-	434
City Unrestricted Donation	1,500	-	-	1,500
Park Unrestricted Donation	9,802	8,691	4,573	13,920
Enterprise Blvd Bond and Interest	2,931,927	730,481	591,561	3,070,847
Enterprise Blvd Reserve	410,392	-	-	410,392
Enterprise Blvd. Construction	198,387	-	68,983	129,404
Storm Water Bond - Phase 1	24,906	259,550	127,450	157,006
Stormsewer Construction III	1,555,808	1,715,247	1,911,973	1,359,082
Cumulative Capital Improvement	160,300	26,537	-	186,837
Cumulative Capital Development	151,808	195,089	48,118	298,779
COIT Capital Development Fund	2,845,663	14,081	57,115	2,802,629
Employee Benefit (Old)	507	-	264	243
Proprietary Funds:				
Electric Utility - Operating	2,815,571	17,932,648	17,598,948	3,149,271
Electric Utility - Renewal and Replacement	6,088,007	319,570	723,031	5,684,546
Electric Utility - Customer Deposit	15,180	-	14,130	1,050
Water Utility - Operating	1,092,063	1,702,850	1,784,910	1,010,003
Water Utility - Depreciation Reserve	4,160,055	409,769	943,023	3,626,801
Water Utility - Availability	4,794	54,652	380	59,066
Water Utility - Customer Deposit	2,925	-	2,650	275
Wastewater Utility - Operating	696,563	2,728,541	2,964,597	460,507
Wastewater Utility - Availability	8,541	80,283	87,224	1,600
Wastewater Utility - Improvement	833,705	500,697	439,712	894,690
Wastewater Utility - Bond and Interest	78,214	485,322	484,850	78,686
Wastewater Utility - Debt Service Reserve	491,088	-	-	491,088
Wastewater Utility - Construction	2,433,247	159,243	1,336,871	1,255,619
Telecommunications Utility - Project	-	150,208	107,442	42,766
Fiduciary Funds:				
Police Officers' Pension	177,877	100,544	153,286	125,135
Firefighter's Pension	87,339	206,838	249,244	44,933
City Court	85,982	38,879	37,712	87,149
Payroll	47,431	5,331,232	5,304,172	74,491
General Levy Excess	8,491	-	-	8,491
Fire Pension Excess Levy	421	-	-	421
Police Pension Excess Levy	472	-	-	472
MVH Excess Levy Excess	427	-	-	427
Parks and Recreation Levy Excess	2,158	-	-	2,158
Cum Cap Development Levy Excess	1,037	-	-	1,037
Storm Water Sewer Bond Excess Levy	4,053	-	-	4,053
Sanitation Excess Levy	589	-	-	589
Solid Waste	1,746	12,370	14,085	31
Totals	\$ 30,315,865	\$ 40,317,395	\$ 42,159,475	\$ 28,473,785

The accompanying notes are an integral part of the schedules.

CITY OF LEBANON
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, 2004 And 2005
(Continued)

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 2,111,193	\$ 6,013,034	\$ 5,962,227	\$ 2,162,000
Motor Vehicle Highway	293,684	537,822	524,580	306,926
Local Road and Street	57,131	70,759	65,334	62,556
Park and Recreation	227,068	417,764	453,898	190,934
Park Nonreverting Operating	17,067	19,977	10,331	26,713
Sanitation	133,527	479,880	504,015	109,392
Law Enforcement Continuing Education	10,028	2,700	162	12,566
Police Fees	12,124	3,515	-	15,639
Deferral Program	4,314	1,914	3,500	2,728
Drug Defense	903	56	-	959
Hazardous Materials Fund	160	110	113	157
DARE Program	223	6,024	6,541	(294)
Fire Tower Training Facility	67,664	25,128	88,667	4,125
Fire Unrestricted Donation	1,056	960	215	1,801
Police Donation	1,215	555	87	1,683
Street Unrestricted Donation	434	-	-	434
City Unrestricted Donation	1,500	-	4,351	(2,851)
Park Unrestricted Donation	13,920	300	10,152	4,068
Enterprise Blvd Bond and Interest	3,070,847	1,135,324	674,562	3,531,609
Enterprise Blvd Reserve	410,392	7,236	13	417,615
Enterprise Blvd. Construction	129,404	115,900	-	245,304
Storm Water Bond - Phase 1	157,006	376,148	123,536	409,618
Stormsewer Construction III	1,359,082	-	504,251	854,831
Storm Water Construction	-	3,410,121	93	3,410,029
Cumulative Capital Improvement	186,837	26,022	54,026	158,833
Public Works Building	-	1,457,278	1,457,068	210
Cumulative Capital Development	298,779	176,282	512,834	(37,773)
COIT Capital Development Fund	2,802,629	33,241	53,497	2,782,373
Employee Benefit (Old)	243	-	-	243
Proprietary Funds:				
Electric Utility - Operating	3,149,271	17,337,994	17,464,633	3,022,632
Electric Utility - Renewal and Replacement	5,684,546	884,584	659,909	5,909,221
Electric Utility - Customer Deposit	1,050	75	950	175
Water Utility - Operating	1,010,003	2,198,053	1,869,997	1,338,059
Water Utility - Depreciation Reserve	3,626,801	648,573	541,133	3,734,241
Water Utility - Availability	59,066	433,419	23,120	469,365
Water Utility - Customer Deposit	275	125	375	25
Wastewater Utility - Operating	460,507	3,373,175	3,216,769	616,913
Wastewater Utility - Availability	1,600	336,156	337,756	-
Wastewater Utility - Improvement	894,690	512,711	642,325	765,076
Wastewater Utility - Bond and Interest	78,686	546,712	488,671	136,727
Wastewater Utility - Debt Service Reserve	491,088	263,997	-	755,085
Wastewater Utility - Construction	1,255,619	4,529,623	1,834,783	3,950,459
Wastewater Utility - Construction Retainage	-	135,199	-	135,199
Telecommunications Utility - Project	42,766	471,222	347,362	166,626
Fiduciary Funds:				
Police Officers' Pension	125,135	96,922	162,864	59,193
Firefighter's Pension	44,933	174,569	272,781	(53,279)
City Court	87,149	50,153	40,188	97,114
Payroll	74,491	4,624,364	4,465,106	233,749
General Levy Excess	8,491	253,967	-	262,458
Fire Pension Excess Levy	421	8,461	-	8,882
Police Pension Excess Levy	472	-	-	472
MVH Excess Levy Excess	427	5,450	-	5,877
Parks and Recreation Levy Excess	2,158	38,145	-	40,303
Cum Cap Development Levy Excess	1,037	21,439	-	22,476
Storm Water Sewer Bond Excess Levy	4,053	28,466	-	32,519
Sanitation Excess Levy	589	10,182	-	10,771
Solid Waste	31	11,720	14,151	(2,400)
Totals	\$ 28,473,785	\$ 51,313,506	\$ 43,396,926	\$ 36,390,366

The accompanying notes are an integral part of the schedules.

CITY OF LEBANON
NOTES TO SCHEDULES

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety, health and social services, culture and recreation, 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 District 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. All property taxes collected by the County Treasurer and available for distribution were distributed to the District on or prior to December 31 of the year collected.

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 LEBANON
NOTES TO SCHEDULES
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The District 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 District 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.

Note 7. Long-Term Debt

The District has entered into various debts such as bonds for Enterprise Boulevard development and storm sewer construction and improvements and capital leases for Industrial Park Enterprise Boulevard, the Lebanon Municipal Building and Fire Station No. 2, and Public Works Building Notes of 2004 for the renovation and construction of the Lebanon Public Safety Building. The outstanding principal at December 31, 2005, was \$4,735,000, \$5,853,676, and \$1,500,000 respectively.

CITY OF LEBANON
EXAMINATION RESULTS AND COMMENTS

INTERNAL CONTROLS - RECEIPTS

Controls for receipts generated by the Clerk-Treasurer's office were insufficient. Receipts were not being issued at the time collections are presented. The date of the receipt is not set by the computer software, but is entered by the user. In some instances, the date entered on a receipt was for a collection made in a preceding month or week. Receipts are not being prepared for each individual or company presenting cash, check or money order

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)

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 51)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances at December 31, 2005, were not completed until June 26, 2006.

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."

ANNUAL REPORT

The annual report for 2005 was not completed and presented for audit until July 13, 2006.

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 . . ."

PRESCRIBED FORMS

The following prescribed or approved forms were not always in use for the Public Works Building Fund, General Check 356.

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)

CITY OF LEBANON
EXAMINATION RESULTS AND COMMENTS
(Continued)

OVERDRAWN FUND BALANCES

The DARE Program Fund, City Unrestricted Donation Fund, Cumulative Capital Development Fund, Firefighter's Pension Fund and Solid Waste Fund were overdrawn at December 31, 2005.

The fund 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)

PAYROLL WITHHOLDING FUND BALANCES

At December 31, 2005, the following withholding fund balances existed within the Payroll Fund:

<u>Fund</u>	<u>Balance</u>
Federal Taxes	\$ 92,751.41
FICA and Medicare	(13,635.26)
COIT	(12,341.71)
Lebanon Fire Department Pension - New	(26,999.01)
Payroll - Net Pay	76,972.49
Credit Union	(3,840.00)
Deferred Compensation	(6,100.00)
Child Support	(1,720.00)
Dental Withholding	(8,029.99)
Optical Withholding	(507.42)

The Clerk-Treasurer was instructed to identify the balances in the above payroll withholding funds. Payroll deductions should be accumulated in the payroll fund, and then disbursed from this fund at the proper time to the various receiving agencies by payroll warrants. Payroll fund ledger balances should be supported by subsidiary ledger sheets for each type of payroll deduction in order to see that no unidentified balance is allowed to accumulate in the payroll fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 3)

CITY COURT - DAILY DEPOSITS

Sixty-two receipts were issued by the City Court from March 29, 2005 through June 30, 2005. Of these 62 receipts, 85% were deposited later than the next business day.

Indiana Code 5-13-6-1(d) provides that all funds collected by a city or town court shall be deposited not later than the next business day following the receipt of funds in depositories selected by the city or town as provided in an ordinance adopted by the city or town. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

CITY OF LEBANON
EXAMINATION RESULTS AND COMMENTS
(Continued)

CITY COURT - BANK RECONCILIATIONS - CASH LONG

A comparison of the records to the bank account indicated a cash long of \$314.85.

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)

CITY COURT - CONDITION OF THE RECORDS - REGISTER OF FUNDS HELD IN TRUST

The following deficiencies were noted in the condition of the Register of Trust Funds:

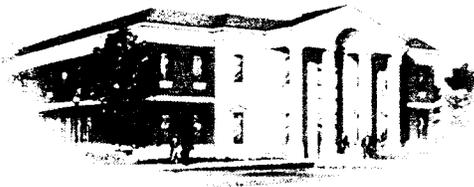
- (1) The outstanding balances per the Register of Trust Funds at December 31, 2005, were \$43,593.49. Cash balances per the December 31, 2005, Clerk's Monthly Balance Record were \$40,664.62, resulting in a variance of \$2,928.87.
- (2) In 2005, there were receipts and checks that were posted to the Monthly Balance Record, but not the Register of Trust Funds.

The total of all unpaid items as shown by the trust fund register must agree with balance in trust as shown by the court cash book. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 1)

CITY OF LEBANON
EXIT CONFERENCE

The contents of this report were discussed on July 3, 2006, with Patricia Renner Crow, City Judge. The official concurred with our findings.

The contents of this report were also discussed on July 31, 2006, with Deborah Ottinger, Clerk-Treasurer; Emmadell Sturgis, Deputy Clerk-Treasurer; James Acton, Mayor; and John W. Lasley, President of the City Council. The official response has been made a part of this report and may be found on pages 12 and 13.



Deborah S. Ottinger
LEBANON CLERK TREASURER

July 31, 2006

STATE BOARD OF ACCOUNTS

The following is a response to the Examination Results and Comments from our Audit. I would request that the Lebanon Clerk-Treasurer's Office be audited each year. The current audit is a two-year audit which I understand is a result of staff shortage at the State Level. While I understand that issue, since most of us suffer from that ourselves, it is easier to correct procedures, especially for newly elected Clerk-Treasurers, if a yearly audit is provided. As much as most offices dread yearly audits, I look at each audit as a learning opportunity and since this is my first term, the information provided would have been very helpful if I would have been audited last year.

#1 INTERNAL CONTROLS – RECEIPTS – We were following procedure from the previous administration and we are now providing receipts at the time collections are presented.

#2 ANNUAL REPORT – This report was not presented in a timely manner because late in 2005 I became aware that our bank statements were not reconciled correctly. The employee was immediately told that she was to no longer work on any financial information alone and was later dismissed. We did a complete audit of our bank statements from March 2005 through December 2005 and had to hire a professional accounting agency to provide us assistance through this procedure. While the report was late, we feel that it is accurate.

#3 PRESCRIBED FORMS – We did get approval for our system from the State Board of Accounts and I was under the impression that included the system and all forms associated with the system. I am looking into the forms issue.

#4 OVERDRAWN FUND BALANCES – What we have found is that funds were taken out of the incorrect appropriation line, which, in turn, made the funds come up short. These were issues with the former employee also. Those corrections will be made.

#5. PAYROLL WITHHOLDING FUND BALANCES – This error was not presented to me by the employee who was dismissed. Again, from the Audit, we have found a report that we can run each month which will help us keep track of the funds that should have a zero balance at the end of each month. We are currently working with Keystone to verify that we are using their program in the correct and most efficient manner.

In summation, the ultimate responsibility lies with the me, the elected official. My mistake was to believe that the work was being done and in hindsight I did not over see the dismissed employee as diligently as I should have.

While as humans we will always make mistakes, it is my belief that my current staff and myself are taking the necessary steps and precautions to abide by State laws and regulations in order to provide the type of service our office needs to provide. The first two years have been a huge challenge for us but we feel we are on the right track.



Deborah S. Ottinger
LEBANON CLERK-TREASURER
dso