

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

EXAMINATION REPORT

OF

TOWN OF COLFAX

CLINTON COUNTY, INDIANA

January 1, 2003 to December 31, 2005



FILED

09/19/2006

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OFFICIALS

Office

Official

Term

Clerk-Treasurer

Diana Reif

01-01-03 to 12-31-07

President of the Town Council

Shelly Lange
Jeff Moore

01-01-03 to 04-30-03
05-01-03 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF COLFAX, CLINTON COUNTY, INDIANA

We have examined the schedules of receipts, disbursements, and cash and investment balances of the Town of Colfax (Town), for the period of January 1, 2003 to December 31, 2005. The Town's management is responsible for the schedules. Our responsibility is to express an opinion based on our examination.

Except as discussed in the third paragraph, we conducted our examination 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.

The Town of Colfax did not maintain financial records for the Water and Wastewater Utilities. The deficiencies included failure to do monthly bank reconciliements, failure to post receipts and disbursements to Simplified Cash Journals for the Water and Wastewater, and failure to maintain an investment register.

Since the Town did not maintain financial records for the Water and Wastewater Utilities the scope of our work was not sufficient to enable us to express and we do not express an opinion on the schedules of receipts, disbursements, and cash and investment balances of the Proprietary Funds.

In addition, in our opinion, the schedules of receipts, disbursements, and cash and investment balances referred to above present fairly, in all material respects, the Governmental Funds as of December 31, 2003, 2004, and 2005.

STATE BOARD OF ACCOUNTS

July 17, 2006

TOWN OF COLFAX
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, 2003, 2004, And 2005

	Cash and Investments 01-01-03	Receipts	Disbursements	Cash and Investments 12-31-03
Governmental Funds:				
General	\$ 56,776	\$ 158,880	\$ 200,879	\$ 14,777
Motor Vehicle Highway	(1,391)	23,027	21,622	14
Local Road and Street	32,320	8,338	32,381	8,277
Accident Report	41	-	-	41
Law Enforcement Continuing Education	4,777	-	-	4,777
County Economic Development	16,358	6,993	8,000	15,351
Rainy Day	21,840	16,483	-	38,323
Riverboat	-	4,856	-	4,856
Cumulative Capital Improvement	7,979	2,777	8,070	2,686
Cumulative Capital Development	5,170	1,313	2,134	4,349
Proprietary Funds:				
Water Utility - Operating	9,978	69,885	62,844	17,019
Water Utility - Reserve	15,508	-	15,508	-
Water Utility - Customer Deposit	36,605	2,828	1,901	37,532
Water Utility - Bond and Interest	100	50,231	26,241	24,090
Wastewater Utility - Operating	20,871	111,160	107,279	24,752
Wastewater Utility - Reserve	16,345	6,010	-	22,355
Wastewater Utility - Bond and Interest	100	45,918	35,895	10,123
Fiduciary Fund:				
Payroll	10,635	120,102	130,737	-
Totals	\$ 254,012	\$ 628,801	\$ 653,491	\$ 229,322
	Cash and Investments 01-01-04	Receipts	Disbursements	Cash and Investments 12-31-04
Governmental Funds:				
General	\$ 14,777	\$ 305,278	\$ 217,814	\$ 102,241
Motor Vehicle Highway	14	45,931	17,082	28,863
Local Road and Street	8,277	12,455	439	20,293
Accident Report	41	3	-	44
Law Enforcement Continuing Education	4,777	-	-	4,777
County Economic Development	15,351	7,084	22,435	-
Rainy Day	38,323	20,733	-	59,056
Riverboat	4,856	4,843	-	9,699
Cumulative Capital Improvement	2,686	2,866	3,915	1,637
Cumulative Capital Development	4,349	7,336	3,850	7,835
Proprietary Funds:				
Water Utility - Operating	17,019	69,731	60,597	26,153
Water Utility - Customer Deposit	37,532	2,230	3,029	36,733
Water Utility - Bond and Interest	24,090	23,213	-	47,303
Wastewater Utility - Operating	24,752	107,084	96,525	35,311
Wastewater Utility - Reserve	22,355	4,836	-	27,191
Wastewater Utility - Bond and Interest	10,123	45,629	43,128	12,624
Sanitation	-	3,902	-	3,902
Totals	\$ 229,322	\$ 663,154	\$ 468,814	\$ 423,662
	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 102,241	\$ 254,864	\$ 281,058	\$ 76,047
Motor Vehicle Highway	28,863	43,700	12,055	60,508
Local Road and Street	20,293	4,825	22,071	3,047
Accident Report	44	-	-	44
Law Enforcement Continuing Education	4,777	-	1,396	3,381
County Economic Development	-	15,093	13,085	2,008
Rainy Day	59,056	15,000	28,887	45,169
Riverboat	9,699	4,843	13,370	1,172
Cumulative Capital Improvement	1,637	2,374	3,621	390
Cumulative Capital Development	7,835	4,476	3,850	8,461
Proprietary Funds:				
Water Utility - Operating	26,153	68,836	87,818	7,171
Water Utility - Customer Deposit	36,733	3,514	11,310	28,937
Water Utility - Bond and Interest	47,303	23,381	47,615	23,069
Wastewater Utility - Operating	35,311	136,305	156,855	14,761
Wastewater Utility - Reserve	27,191	5,085	955	31,321
Wastewater Utility - Bond and Interest	12,624	45,609	43,031	15,202
Sanitation	3,902	23,646	23,965	3,583
Totals	\$ 423,662	\$ 651,551	\$ 750,942	\$ 324,271

The accompanying notes are an integral part of the schedules.

TOWN OF COLFAX
NOTES TO SCHEDULES

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety, health and social services, culture and recreation, and general administrative services.

Note 2. Fund Accounting

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

Note 3. Budgets

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

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Town in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10. Taxes due and payable for 2003 were due in one installment on February 13, 2004. The taxes due and payable for 2004 were due in one installment on November 10, 2004.

Note 5. Deposits and Investments

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

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

TOWN OF COLFAX
NOTES TO SCHEDULES
(Continued)

Note 6. Pension Plan

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.

Note 7. Long-Term Debt

The Town has entered into various debts such as bonds and capital leases. The outstanding principal at December 31, 2005, was \$460,000 and \$8,194, respectively.

TOWN OF COLFAX
EXAMINATION RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were not performed for the audit period under examination. There was no listing of outstanding checks presented for audit.

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."

PRESCRIBED FORMS

The following prescribed or approved forms were not in use by the Town:

Town Form 217 Clerk-Treasurer's Receipt
Town Form 219 Clerk-Treasurer's Warrant
Town Form 211 Capital Assets Ledger
Town Form 206 Clerk-Treasurer's Monthly Financial Depository
Statement and Cash Reconciliation
Town Form 350 Register of Investments
Simplified Cash Journal for Water Utility Class C Form 319
Simplified Cash Journal for Wastewater Class C Form 323

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)

CONDITION OF RECORDS

The following deficiencies, relating to the recordkeeping were noted during the course of this examination:

1. Record balances were not reconciled to the depository balances during the three year period.
2. There were no totals for month-to-date or year-to-date.
3. There were posting errors as follows for 2005:
 - a. Not all checks issued were posted to the 2005 ledger for the General fund.
 - b. Ending balances of the prior year did not carry forward to the subsequent year. This involved all three years and involved the General Fund, MVH Fund, Payroll Fund, and CCI Fund.
 - c. January and February 2006 checks were posted to the 2005 ledger for the General Fund.

TOWN OF COLFAX
EXAMINATION RESULTS AND COMMENTS
(Continued)

d. Checks written from the Town General Fund were posted in the wrong amount. Payroll checks which included the Town, water and wastewater portions were written from the General Fund. However, only the Town portion was posted to the General Fund ledger. The utilities reimbursed the Town for the water and wastewater portion, therefore the utility portion was not accounted for in the records. This involved 48 checks for the year 2005 totaling \$43,603.344.

e. There were three checks recorded in the check register with no amount shown, however, they were posted to the ledger.

4. No receipts are issued.
5. No simplified cash journals are maintained for the water and wastewater utilities.
6. No prescribed checks are used.
7. No investment record is maintained.
8. Wastewater Bond and Interest payments were automatically taken from the savings account beginning in November 2003, however, these payment are not accounted for in the check register or the expense sheet.
9. There was no ledger for the sanitation fund.
10. Meter deposits are receipted to the operating fund and the applieds and refunds are paid out of the operating fund. However, it was noted that not all deposits, applieds, and refunds were posted to the meter deposit register.
11. For 2005 there were two receipts posted twice. There was one on April 15, 2005, for \$9.61 and one on December 6, 2005, for \$383.25.
12. For 2005 there were three state distributions that were on the bank statement, but not posted to the ledger. They were as follows:

January 3, 2005	MVH	\$1,399.11
January 3, 2005	LRS	397.07
June 24, 2005	Excise	330.00

13. Local tax distributions were not properly posted, posted twice, or not posted at all. For 2003 the distribution of June 27 was posted entirely to the General Fund, however \$491.97 was to be posted to the Cumulative Fund and \$990.08 was to be posted to the Street Fund. The January 14, 2004, distribution was posted to the General fund, Cumulative Fund, and Street Fund as it should be, but then the total \$982.00 was also posted to the General Fund. The April 5, 2004, distribution of \$6,295.14 was also posted both to the Motor Vehicle Highway Fund and Local Road and Street Fund.

TOWN OF COLFAX
EXAMINATION RESULTS AND COMMENTS
(Continued)

14. The following local tax distributions were not posted to the funds ledger:

09-09-04	F.I.T.	Street Fund	\$ 47.25
09-28-04	License	Excise Street Fund	81.71
12-05-05	F.I.T.	Street Fund	37.00
12-05-05	F.I.T.	Cumulative Fund	10.50

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

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

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help insure compliance with Indiana Code 5-15-1-1 et seq., commonly referred to as the Public Records Law.

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)

DEPOSITS

There were numerous instances where receipts 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."

RECEIPT ISSUANCE

There were no receipts issued for the period of the audit. There were receipts posted which did not identify the source of the receipt and there were instances where receipts such as tax distributions were not recorded.

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)

TOWN OF COLFAX
EXAMINATION RESULTS AND COMMENTS
(Continued)

GUARANTEE DEPOSIT REGISTER

The Guarantee Deposit Register was not in balance with the balance shown on the financial statement for this audit report. The Utility did not maintain a Simplified Cash Journal; therefore, no cash balance was available from the unit to reconcile to. Information provided revealed Meter Deposits Refunds and the Applied were not all accounted for in the Guarantee Deposit Register.

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)

HYDRANT RENTAL

The prior Audit Report B21268 revealed the Town owed the Water Utility \$13,500 in hydrant rental. During the course of the current audit it was noted an excess amount of hydrant rental was paid in 2004 and 2005 and currently the Town of Colfax owes the Water Utility hydrant rental in the amount of \$10,500 at December 31, 2005, pursuant to Rate Ordinance 11-5-91 passed by the Town Council on March 31, 1992.

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)

ERRORS ON CLAIMS

The following deficiencies were noted on claims during the audit period:

- (1) Claims were not prepared for all disbursements.
- (2) Claims were not adequately itemized.
- (3) All claims were not certified by the Clerk-Treasurer.
- (4) Claims or invoices did not have evidence to support receipt of goods or services.
- (5) All claims were not approved by the governing board.
- (6) There was no cash journal therefore disbursements could not be traced for correct posting.

Indiana Code 5-11-10-1.6 states, in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services."

"(c) The fiscal officer of a governmental entity 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;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;

TOWN OF COLFAX
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

UTILITY WARRANTS

The warrants issued for the Water Utility and Wastewater Utility funds are not signed by the Clerk-Treasurer. The depository account has been set up to require two signatures of Town Council members.

Indiana Code 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 the authority to sign in place of the fiscal officer.

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

UTILITY RECEIPTS TAX

Records presented for audit did not indicate that the water utility paid utility receipts tax to the Indiana Department of Revenue during the audit period.

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 Indiana Code 6-8.1-15. However, gross receipts received by a political subdivision for sewage and sewage service are not subject to the tax. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SALES TAX

The Water Utility collected sales tax from customers and remitted such tax to the Indiana Department of Revenue, however, the sales tax was improperly calculated. The monthly Cash Summary Report breaks out the water taxable and the water nontaxable. The unit is taking the water taxable and deducting the water nontaxable and then calculating the sales tax.

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

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

TOWN OF COLFAX
EXAMINATION RESULTS AND COMMENTS
(Continued)

PAYROLL RECORDS

General Payroll Form 99A, Employee's Service Record, and General Payroll Form 99B, Employee's Earnings Record, were not maintained after January 2004 and presented for audit. No W-2's for 2005 were presented for audit.

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)

FINANCIAL REPORT OPINION MODIFICATIONS

The condition of records for the years 2003, 2004, and 2005 could not substantiate an unqualified opinion on the Water and Wastewater Utilities. Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Accountant's Report for the schedules of receipts, disbursements, and cash and investment balances for the Town of Colfax Water and Wastewater Utilities.

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)

TOWN OF COLFAX
EXIT CONFERENCE

The contents of this report were discussed on July 24, 2006, with Diana Reif, Clerk-Treasurer; Jeff Moore, President of the Town Council; Shelly Lange, Bob Stambaugh, and David Martin, Council members.