

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

EXAMINATION REPORT
OF
CITY OF FRANKFORT
CLINTON COUNTY, INDIANA
January 1, 2005 to December 31, 2005



FILED
09/19/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Marilyn K. Chittick	01-01-04 to 12-31-07
Mayor	Donald Stock	01-01-04 to 12-31-07
President of the Board of Public Works	Donald Stock	01-01-04 to 12-31-07
President of the Common Council	Donald Stock	01-01-04 to 12-31-07
President of the Utility Service Board	Joe H. Root Mike Mills	01-01-04 to 10-02-05 10-03-05 to 12-31-06
Superintendent of Water Utility	Wesley Hyden	01-01-05 to 12-31-06
Superintendent of Wastewater Utility Wastewater Treatment Wastewater Maintenance	Dennis Shirar Donald Bogard	01-01-05 to 12-31-06 01-01-05 to 12-31-06
Superintendent of Electric Utility	Steve Miller	01-01-05 to 12-31-06
Utility Office Manager	Susan O'Brien	01-01-05 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF FRANKFORT, CLINTON COUNTY, INDIANA

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

STATE BOARD OF ACCOUNTS

August 7, 2006

CITY OF FRANKFORT
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2005

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 481,189	\$ 6,623,938	\$ 6,363,902	\$ 741,225
Motor Vehicle Highway	169,637	964,352	915,199	218,790
Local Road and Street	3,503	58,337	30,340	31,500
Local Law Enforcement Continuing Education	26,456	10,226	5,432	31,250
Emergency Medical Services	38,835	268,794	268,942	38,687
Hazardous Material	4,757	28,512	32,823	446
User Fee	70,150	295,713	310,549	55,314
Police Forfeiture	16,807	4,689	7,005	14,491
Special Donation	33,756	219,386	141,769	111,373
Criminal Justice Grant	(10,154)	36,029	25,875	-
Flower	68	968	655	381
Petting Zoo Donations	15	1,349	521	843
TPA Park Festival	15,188	16,123	11,062	20,249
Softball League	403	3,435	1,024	2,814
Unsafe Building	26,684	-	14,194	12,490
Riverboat Fund	-	105,066	80,565	24,501
County Econ Development Income Tax	293,086	126,194	83,321	335,959
Chipper Grant	3,862	-	1,770	2,092
Rainy Day Fund	429,325	-	429,325	-
911 Operator	(11,380)	41,524	20,259	9,885
Fire FEMA Grant	39,165	-	38,575	590
Project Safety T	134,000	-	134,000	-
Homeland Security	131,814	33,683	123,893	41,604
NHC Custodian	(7,752)	7,752	-	-
City Court	1,504	49,277	47,871	2,910
Storm Damage Refund	-	119,487	96,391	23,096
Cumulative Building and Firefighting Equipment	83,999	85,539	-	169,538
Cumulative Capital Improvement	124,213	28,275	52,963	99,525
Clerk Equipment Fund	3,304	860	-	4,164
Proprietary Funds:				
Water Utility	1,854,838	2,511,974	2,746,496	1,620,316
Wastewater Utility	1,434,058	2,443,910	2,608,559	1,269,409
Electric Utility	8,190,774	20,677,994	21,461,957	7,406,811
Utility Service Board	53,233	848,802	867,400	34,635
Utility Auditor Operating	5,168	60,530	60,671	5,027
Billing Office Operating	28,308	596,340	542,040	82,608
Utility Credit Card Fee Account	344	6,894	6,889	349
Fiduciary Funds:				
Health Insurance	25,804	1,532,205	1,542,216	15,793
Police Pension	500,971	430,000	447,939	483,032
Fire Pension	392,369	625,819	702,821	315,367
Utility Retirement Pension	3,398,415	3,763,507	3,464,946	3,696,976
Payroll	94,561	10,302,388	10,303,700	93,249
Fred A. Simms Scholarship	5,026	83	63	5,046
Sallie Mae Byers Scholarship	1,508	25	16	1,517
Municipal Pool Escrow	1,989	33	2,019	3
County Docket Fees	-	4,960	4,960	-
Special Insurance	14,087	17,504	25,132	6,459
Medical Reimbursement	2,764	227,128	228,719	1,173
Totals	\$ 18,106,651	\$ 53,179,604	\$ 54,254,768	\$ 17,031,487

The accompanying notes are an integral part of the schedules.

CITY OF FRANKFORT
NOTES TO SCHEDULE

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, electric, water, wastewater, and urban redevelopment and housing.

Note 2. Fund Accounting

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

Note 3. Budgets

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

Note 4. Property Taxes

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

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City and Wastewater Utility contribute 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. Subsequent Events

On July 24, 2006, the Common Council for the City of Frankfort signed Ordinance 2006-16, to "amend the Sewer Use Ordinance of the City of Frankfort, Indiana to add provisions for Storm Water Management." The City of Frankfort shall operate its Storm Water Utility through the City of Frankfort Utility Service Board pursuant to provisions of Indiana Code 25-9-23. The Storm Water Utility will be responsible for the management of the Frankfort Storm Water System and will fund storm water management activities by charging user fees to the owner/renter of each property containing impervious surface area within the corporate limits of the City of Frankfort. The monthly user fee is anticipated to be being billed beginning in September 2006.

CITY OF FRANKFORT
EXAMINATION RESULTS AND COMMENTS

UTILITY TRAVEL CLAIMS

In some instances employees were reimbursed, or credit card charges paid, for travel expenses without original receipts attached to the claim.

The Utility Service Board has not adopted a travel policy or implemented controls that would monitor charges and reimbursements of employee expenses.

The Utility Service Board should adopt a travel policy and implement controls which monitor charges and reimbursements of employee expenses. When it is necessary for the City to pay personal or guest expenses, these expenses should be monitored and accounted for with the reimbursement documented and verified. Also, in all cases, the original receipts should be attached to the claim before reimbursements are made.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (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)

CREDIT CARDS

The Frankfort Utilities are using credit cards to purchase items without an approved credit card policy.

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.

CITY OF FRANKFORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (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)

TRANSACTION RECORDING

Some items were not entered in the records of the City of Frankfort, as follows:

- 1. Interest earned in December 2005, (in the amount of \$ 10,789.59) was not posted to the records until January 2006.
- 2. Utility collections from December 29-31, 2005, (in the amount of \$ 10,367.08) were not posted to the City records until January 2006.
- 3. State distributions received in December 2005 (in the total amount of \$ 78,528.38) were not posted to the City records until January 2006.
- 4. A transfer to the payroll fund in late December 2005 (in the amount of \$ 220,353.68) was not posted to the City records until January 2006.

The posting errors noted above resulted in the cash/fund balances of the City of Frankfort being overstated by a net amount of \$ 120,068.63, at December 31, 2005.

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)

CITY OF FRANKFORT
EXIT CONFERENCE

The contents of this report were discussed on August 16, 2006, with Marilyn K. Chittick, Clerk-Treasurer; Donald Stock, Mayor; Darrell Sanders, City Council member; Sam Paul, City Council member; Jim Moyer, City Council member; Tom Ransom, Utility Service Board member; Michael Mills, Utility Service Board member; Joe H. Root, Utility Service Board member; Becky Quick, Utility Auditor; and Steve Miller, Electric Utility Superintendent. The officials concurred with our findings.