

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

EXAMINATION REPORT

OF

CITY OF FRANKLIN

JOHNSON COUNTY, INDIANA

January 1, 2004 to December 31, 2005



**FILED**  
09/20/2006



## 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 .....	6-8
Examination Results and Comments:	
Trusts and Endowments .....	9
Record Information .....	9-10
Internal Controls .....	10
Exit Conference .....	11
Official Response .....	12-14

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Janet P. Alexander	01-01-04 to 12-31-07
Mayor	Norman P. Blankenship (Deceased) Stephen D. Hougland Brenda G. Jones-Matthews	01-01-04 to 05-12-05 05-13-05 to 06-08-05 06-09-05 to 12-31-06
President of the City Council	Stephen D. Hougland	01-01-04 to 12-31-06



**STATE OF INDIANA**  
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF FRANKLIN, JOHNSON COUNTY, INDIANA

We have examined the schedules of receipts, disbursements, and cash and investment balances of the City of Franklin (City), 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 6, 2006

CITY OF FRANKLIN  
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
<b>Governmental Funds:</b>				
General	\$ 4,739,676	\$ 9,643,259	\$ 11,122,974	\$ 3,259,961
Motor Vehicle Highway	874,704	1,292,780	951,964	1,215,520
Local Road and Street	1,041,941	341,880	14,623	1,369,198
Local Law Enforcement Continuing Education	56,362	16,580	39,516	33,426
Park and Recreation	683,734	1,371,504	1,384,241	670,997
Cemetery	297,539	167,614	82,732	382,421
Athletic Park Nonreverting Operating	416,171	488,029	445,322	458,878
Park Concessions	2,357	10,476	10,824	2,009
Park Gift	77,473	19,959	22,695	74,737
Donation Fund	12,834	7,221	3,829	16,226
Riverboat Wagering Tax Revenue Sharing	123,071	-	-	123,071
IHFA-CDBG Grant Owner Occupied Rehab	-	140,892	140,892	-
Drug Abuse Resistance (DARE)	18,514	4,800	5,057	18,257
Criminal Justice	1,325	-	-	1,325
Abandoned Vehicle	5,300	-	2,925	2,375
Fire Medic Service	238,997	193,827	158,304	274,520
Developer's Share - Municipal Improvement	71,750	9,900	71,500	10,150
Record Perpetuation	25,953	13,470	529	38,894
Park Grant	1,956	11,405	9,283	4,078
Rainy Day Fund	-	296,393	-	296,393
DOC CDBG - Planning Grant - Gateway	-	48,000	48,000	-
Fire Public Education Fund	-	1,850	765	1,085
Police Forfeiture	-	41,091	110	40,981
Park District Bond	52,269	259,458	300,725	11,002
Police/City Court Bond	104,962	152,935	240,545	17,352
Redevelopment Debt Service Reserve	360,893	230,151	221,255	369,789
Redevelopment Bond and Interest / Allocation	304,278	17,546	-	321,824
Redevelopment Special Reserve	48,294	153	-	48,447
Redevelopment Operation Reserve	39,320	282	-	39,602
Redevelopment Sinking	60,108	319,426	294,163	85,371
Cumulative Capital Improvement	534,237	72,631	89,709	517,159
Cumulative Capital Development	1,244,923	332,804	-	1,577,727
Park Nonreverting Capital	38,575	-	-	38,575
Sidewalk Repair/Maintenance	12,776	3,900	11,050	5,626
Build Indiana - Branigin Way	627,544	2,210	396,971	232,783
Tax Increment Financing	4,038,823	1,624,440	577,138	5,086,125
Group Insurance	524,608	1,647,123	1,606,301	565,430
Insurance Reserve	545,203	3,385	-	548,588
<b>Proprietary Funds:</b>				
Wastewater Utility - Operating	2,251,627	3,157,888	2,561,976	2,847,539
Wastewater Utility - Bond and Interest	3,343,558	1,148,676	1,214,873	3,277,361
Wastewater Utility - Improvement	2,733,343	734,405	154,771	3,312,977
<b>Fiduciary Funds:</b>				
Police Officers' Pension	848,598	298,527	231,687	915,438
Firefighters' Pension	949,554	374,312	361,553	962,313
Cemetery Trust	30,922	188	-	31,110
Court Deferral	19,819	264,309	153,266	130,862
Paris Estates	6,758	-	4,758	2,000
Indiana Police Pension	23,332	102,579	96,814	29,097
Indiana Fire Pension	27,392	118,587	113,089	32,890
PERF	71,250	268,969	261,746	78,473
Law Enforcement User	23,575	3,882	2,169	25,288
Tax Levy Excess	47,892	-	47,892	-
Franklin Cove	76,981	575,272	624,987	27,266
City Court	6,385	1,119,786	1,073,185	52,986
<b>Totals</b>	<b>\$ 27,687,456</b>	<b>\$ 26,954,754</b>	<b>\$ 25,156,708</b>	<b>\$ 29,485,502</b>

The accompanying notes are an integral part of the schedules.

CITY OF FRANKLIN  
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		Disbursements	Cash and	
	Investments	Receipts		Investments	
	01-01-05			12-31-05	
<b>Governmental Funds:</b>					
General	\$ 3,259,961	\$ 11,108,082	\$ 11,612,308	2,755,735	
Motor Vehicle Highway	1,215,520	803,390	1,118,934	899,976	
Local Road and Street	1,369,198	229,458	540,743	1,057,913	
Local Law Enforcement Continuing Education	33,426	16,629	12,612	37,443	
Park and Recreation	670,997	1,387,490	1,535,121	523,366	
Cemetery	382,421	-	382,421	-	
Athletic Park Nonreverting Operating	458,878	517,884	449,961	526,801	
Park Concessions	2,009	9,331	8,840	2,500	
Park Gift	74,737	682	4,513	70,906	
Donation Fund	16,226	6,400	2,648	19,978	
Riverboat Wagering Tax Revenue Sharing	123,071	122,729	123,071	122,729	
IHFA-CDBG Grant Owner Occupied Rehab	-	74,561	74,561	-	
Drug Abuse Resistance (DARE)	18,257	3,500	5,838	15,919	
Criminal Justice	1,325	-	-	1,325	
Abandoned Vehicle	2,375	-	1,845	530	
Fire Medic Service	274,520	227,187	232,161	269,546	
Developer's Share - Municipal Improvement	10,150	-	-	10,150	
Record Perputuation	38,894	9,188	-	48,082	
Park Grant	4,078	4,600	2,995	5,683	
Rainy Day Fund	296,393	-	-	296,393	
Fire Public Education Fund	1,085	2,201	2,286	1,000	
Police Forfeiture	40,981	1,227	-	42,208	
DOC CDBG - Downtown Revival Grant	-	45,000	45,000	-	
IDFA Brownfielg Grants	-	28,481	26,345	2,136	
VOCA Grant - Turning Point - Federal	-	26,623	26,623	-	
Park District Bond	11,002	299,449	302,587	7,864	
Police/City Court Bond	17,352	231,523	238,260	10,615	
Redevelopment Debt Service Reserve	369,789	8,618	14,048	364,359	
Redevelopment Bond and Interest / Allocation	321,824	751,440	320,500	752,764	
Redevelopment Special Reserve	48,447	1,151	865	48,733	
Redevelopment Operation Reserve	39,602	1,188	-	40,790	
Redevelopment Sinking	85,371	337,264	304,388	118,247	
Cumulative Capital Improvement	517,159	60,165	98,062	479,262	
Cumulative Capital Development	1,577,727	333,891	-	1,911,618	
Park Nonreverting Capital	38,575	-	-	38,575	
Sidewalk Repair/Maintenance	5,626	9,150	11,385	3,391	
Build Indiana - Branigin Way	232,783	-	72,777	160,006	
Tax Increment Financing	5,086,125	1,539,530	851,697	5,773,958	
Group Insurance	565,430	1,767,237	1,510,000	822,667	
Insurance Reserve	548,588	-	-	548,588	
<b>Proprietary Funds:</b>					
Wastewater Utility - Operating	2,847,539	3,293,915	2,228,074	3,913,380	
Wastewater Utility - Bond and Interest	3,277,361	858,939	1,191,654	2,944,646	
Wastewater Utility - Improvement	3,312,977	637,563	2,981,203	969,337	
<b>Fiduciary Funds:</b>					
Police Officers' Pension	915,438	189,601	236,433	868,606	
Firefighters' Pension	962,313	268,596	394,755	836,154	
Cemetery Trust	31,110	141	-	31,251	
Court Deferral	130,862	227,701	354,392	4,171	
Paris Estates	2,000	-	-	2,000	
Indiana Police Pension	29,097	101,105	104,430	25,772	
Indiana Fire Pension	32,890	118,774	122,158	29,506	
PERF	78,473	234,988	286,665	26,796	
Law Enforcement User	25,288	-	-	25,288	
Franklin Cove	27,266	677,237	619,405	85,098	
City Court	52,986	983,742	947,463	89,265	
<b>Totals</b>	<b>\$ 29,485,502</b>	<b>\$ 27,557,551</b>	<b>\$ 29,400,027</b>	<b>\$ 27,643,026</b>	

The accompanying notes are an integral part of the schedules.

CITY OF FRANKLIN  
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, wastewater 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 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 FRANKLIN  
NOTES TO SCHEDULES  
(Continued)

Note 6. Pension Plan

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The City 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 City 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.

b. 1925 Police Officers' and 1937 Firefighters' Pension Plans

Plan Description

The City contributes to the 1925 Police Officers' and 1937 Firefighters' Pension Plans, which are single-employer defined benefit pension plan. The plans are administered by the local pension boards as authorized by state statute (IC 36-8-6 and 36-8-7, respectively). The plans provide retirement, disability, and death benefits to plan members and beneficiaries. The plans were established by the plan administrators, as provided by state statutes. The plan administrators do not issue publicly available financial reports that include financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' and 1937 Firefighters' Pension Plans are established by state statute.

CITY OF FRANKLIN  
NOTES TO SCHEDULES  
(Continued)

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan.

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF 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 Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF.

Note 7. Long-Term Debt

The City has entered into various debts such as general obligation bonds for a new police and court building and a park facility and capital leases for fire department equipment. The outstanding principal at December 31, 2005, was \$3,255,000 and \$280,320, respectively.

The City has entered into revenue bonds for the wastewater treatment facility. The outstanding principal, for all issues, at December 31, 2005, was \$11,669,027.

CITY OF FRANKLIN  
EXAMINATION RESULTS AND COMMENTS

TRUSTS AND ENDOWMENTS – (APPLIES TO THE PARK AND RECREATION DEPARTMENT)

The Maude Scott Trust Agreement provides in part that the interest income on her donation shall be used to buy equipment only to be used in the programs and operation of the park donated by her late husband at Scott Park, as long as the City utilizes the property for a park. It continues to say . . ."it being my intention that the income from this trust fund be used to equip and provide playground equipment used in the operation of said park and not in the maintenance and upkeep thereof. In the event that the park land donated by my husband, Paul D. Scott, is abandoned by the City of Franklin as a park and recreation area for growing children and no longer used, then in that event, this trust shall be terminated and the funds remaining therein shall be paid immediately into the trust fund created in my last will and testament."

Additionally, other funds have been donated to the park with specific purposes noted.

The Park and Recreation officials did not establish a subsidiary accounting system to account for the amounts received, spent and the balance remaining for each of the restricted donations.

Each governmental unit is responsible for complying with any requirements of trust agreements or endowments received which are not contrary to state statute or constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

RECORD INFORMATION – (APPLIES TO THE PARK AND RECREATION DEPARTMENT)

As stated in the prior Audit Reports B23551 and B26886, reports produced from the Park and Recreation Department's RecTrac System indicated differing amounts for numerous revenue categories for the same period of time. Department personnel did not routinely run these reports and were unable to explain the reason for the differences in these reports that were requested for audit. Also, in order to verify a detail of receipts for an activity several different type of receipt reports (GL Distribution Reports, Location GL Revenue Reports, POS Sales History Reports, Activity GL Reports, Pass History Analysis Report) needed to be generated and it was not clear why detailed receipt information for an activity could not be located on one summarized subsidiary ledger. Another component to the system is FinTrac which also tracks the financial activity. FinTrac and RecTrac reports could not be reconciled. All of the reports indicate they are "Receipt Approved by the State Board of Accounts - 1993." These forms are not receipt forms.

CITY OF FRANKLIN  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

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)

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)

INTERNAL CONTROLS – (APPLIES TO THE PARK AND RECREATION DEPARTMENT)

We noted the following concerning the controls over the receipting for the concession areas of the Park Department: detailed records for collections (i.e., cash register tapes, etc.) did not match actual amounts deposited in seven out of ten dates tested.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF FRANKLIN  
EXIT CONFERENCE

The contents of this report were discussed on July 20, 2006, with Brenda G. Jones-Matthews, Mayor; and Janet P. Alexander, Clerk-Treasurer. The official response has been made a part of this report and may be found on pages 12-14.

# EGGERS WOODS

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J. Andrew Woods, P.C.  
Michael T. Bohn

July 28, 2006

State Board of Accounts  
302 W. Washington Street  
Room E418  
Indianapolis, IN 46204-2738

Re: City of Franklin, Department of Parks and Recreation

To Whom It May Concern:

Please be advised that I represent the City of Franklin Park Board. The purpose of this correspondence is to offer the Park Board's Official Response relative to the contents of the report filed by the field examiner of the State Board of Accounts on or about July 20, 2006. In response the Superintendent of the Park Board, Suzanne Findley, the President of the Park Board, Ted Server, and the Mayor of Franklin, Brenda Jones-Matthews, met to address the concerns articulated in the report. The purpose of this correspondence is to address those areas of concern and offer additional information as to how the City of Franklin, Department of Parks and Recreation intends to address said concerns:

1. The Maude Scott Trust. In their report, the field officers identified the need for separate subsidiary accounting systems for all restricted donations.

During the meeting referenced above, it was determined that a subsidiary accounting system will be implemented for the Maude Scott Trust. To date that trust has generated \$9,289.74 amount of interest. That income will be placed in the Maude Scott Trust subsidiary accounting system, and per the Trust, restricted to the purchase of playground equipment for Scott Park.

Additionally, there will be subsidiary accounts created for other restricted donations. Thus far, those restricted donations have been identified as including, but not altogether limited to, the Skate Board Park and the Park and Recreation Trails. Again, there will be appropriate accounting procedures to review the restricted donations and how that money was spent for those specific purposes on an annual basis.

2. Record Information. The field officers were concerned regarding the Franklin Park and Recreation Department's Rectrac system in that differing amounts from numerous revenue categories appeared for the same period of time. The field officers also noted that it was not clear why detailed receipt information for an activity could not be located on one summarized subsidiary ledger.

It would appear from a preliminary investigation the problem identified by the field officers may very well lie with the software referenced above purchased through Vermont Systems, Inc. Attached hereto and incorporated herein as Exhibit "A" are a number of e-mail messages sent to a representative of the company. It would appear from her reply on July 20, 2006, that the software in question does not work properly when there has been an entry of a cancellation where funds may have been returned. Therefore, those refunds would create discrepancies between the daily reports and the annual GL revenue reports.

In an effort to remedy the situation as above-described, it was suggested by the Mayor that the Park Board look into purchasing new software that will more accurately and fully tract different types of receipt reports on an annual basis allowing for reconciliation when a participant may cancel a previously paid for activity and receive a refund. It was the hope of all present at the meeting that a new system may be up and running by January 1, 2007.

3. Internal Controls. The field officers found discrepancies with respect to the concession area located at the Franklin Municipal Pool. They noted that the actual amounts deposited in 7 out of 10 days tested did not comport with the detailed records for collection (i.e. cash register tapes).

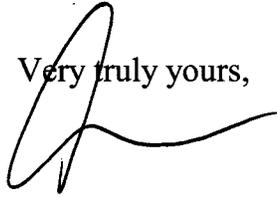
This concern was discussed at the meeting. It was generally believed that employee error in operating the cash register may account for the discrepancies.

A solution would mandate more training and more emphasis on the accuracy of inputting the data. Also, an internal audit will be implemented which will reconcile the inventory and retail concession tapes on a daily basis.

It is the hope of the City of Franklin Park and Recreation Department that the above information is helpful with respect to the report that was generated. The City of Franklin Park and Recreation Department has every intention of rectifying the perceived problems as identified in the report.

State Board of Accounts  
July 28, 2006  
Page 3

Very truly yours,

A handwritten signature in black ink, appearing to read 'J. Andrew Woods', with a long horizontal flourish extending to the right.

J. Andrew Woods

JAW/bw

cc: Brenda Jones-Matthews  
Janet Alexander  
Suzanne Findley  
Ted Server