

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

EXAMINATION REPORT
OF
TOWN OF ELIZABETH
HARRISON COUNTY, INDIANA
January 1, 2003 to December 31, 2005



FILED
10/30/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Hugh Burns	01-01-00 to 12-31-07
President of the Town Council	Michael Sampson	01-01-03 to 12-31-03
	Christopher Fetz	01-01-04 to 12-31-04
	Michael Sampson	01-01-05 to 12-31-05
	Bradley Evans	01-01-06 to 12-31-06
Superintendent of Water Utility	Terry L. Miller	01-01-03 to 12-31-06



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF ELIZABETH, HARRISON COUNTY, INDIANA

We have examined the schedules of receipts, disbursements, and cash and investment balances of the Town of Elizabeth (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.

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 Town for the years ended December 31, 2003, 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

September 21, 2006

TOWN OF ELIZABETH
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL AND PROPRIETARY 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	\$ 11,556	\$ 7,900	\$ 8,901	\$ 10,555
Motor Vehicle Highway	10,309	4,272	2,470	12,111
Local Road and Street	10,017	1,610	474	11,153
Cemetery	7,751	3,491	1,223	10,019
Riverboat	30,679	85,647	71,497	44,829
Internet	135	-	-	135
Cumulative Capital Improvement	2,674	496	-	3,170
EDIT	3,479	830	-	4,309
Proprietary Funds:				
Water Utility - Operating	181,852	761,324	623,706	319,470
Water Utility - Bond and Interest	103,000	-	-	103,000
Water Utility - Debt Service Reserve	107,000	-	-	107,000
Water Utility - Customer Deposit	44,426	6,566	5,475	45,517
Water Utility - Construction	5,992	-	5,992	-
Water Utility - Improvement	44,997	33,285	80	78,202
Water Utility - Cash Reserve	16,715	-	16,715	-
Totals	<u>\$ 580,582</u>	<u>\$ 905,421</u>	<u>\$ 736,533</u>	<u>\$ 749,470</u>

	Cash and Investments 01-01-04	Receipts	Disbursements	Cash and Investments 12-31-04
Governmental Funds:				
General	\$ 10,555	\$ 22,191	\$ 21,748	\$ 10,998
Motor Vehicle Highway	12,111	4,442	2,787	13,766
Local Road and Street	11,153	1,701	1,061	11,793
Cemetery	10,019	6,750	3,716	13,053
Riverboat	44,829	71,931	29,171	87,589
Internet	135	-	-	135
Cumulative Capital Improvement	3,170	511	-	3,681
EDIT	4,309	980	-	5,289
Proprietary Funds:				
Water Utility - Operating	319,470	841,016	878,063	282,423
Water Utility - Bond and Interest	103,000	106,812	-	209,812
Water Utility - Debt Service Reserve	107,000	-	-	107,000
Water Utility - Customer Deposit	45,517	5,415	4,497	46,435
Water Utility - Improvement	78,202	104,376	102,495	80,083
Water Utility - Cash Reserve	-	35,971	9,000	26,971
Totals	<u>\$ 749,470</u>	<u>\$ 1,202,096</u>	<u>\$ 1,052,538</u>	<u>\$ 899,028</u>

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 10,998	\$ 18,437	\$ 19,289	\$ 10,146
Motor Vehicle Highway	13,766	4,354	2,521	15,599
Local Road and Street	11,793	1,723	89	13,427
Cemetery	13,053	5,550	2,112	16,491
Riverboat	87,589	58,925	45,010	101,504
Internet	135	-	135	-
Cumulative Capital Improvement	3,681	423	-	4,104
EDIT	5,289	702	-	5,991
Proprietary Funds:				
Water Utility - Operating	282,423	814,676	783,301	313,798
Water Utility - Bond and Interest	209,812	106,812	-	316,624
Water Utility - Debt Service Reserve	107,000	-	-	107,000
Water Utility - Customer Deposit	46,435	7,623	5,065	48,993
Water Utility - Improvement	80,083	1,191	35,647	45,627
Water Utility - Cash Reserve	26,971	-	9,500	17,471
Totals	<u>\$ 899,028</u>	<u>\$ 1,020,416</u>	<u>\$ 902,669</u>	<u>\$ 1,016,775</u>

The accompanying notes are an integral part of the schedules.

TOWN OF ELIZABETH
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 (fire), highways and streets, public improvements, general administrative services and water.

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, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the Town 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 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.

Note 6. Long-Term Debt

The Town has issued Waterworks Revenue Bonds for Water Utility improvements and the construction of the Town Hall and Community Center. The outstanding principal at December 31, 2005, was \$710,000 and \$800,000, respectively.

TOWN OF ELIZABETH
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS

The following deficiencies, relating to the recordkeeping, that were cited in the prior audit report, were again present during our period of audit:

- (1) Record balances were not reconciled to depository balances during the two year period. At December 31, 2005, the depository balances totaled \$1,924.12 more than the record balances.

Indiana Code 5-13-6-1(e) states: "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."

- (2) Interest on investments was not always posted properly.

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)

- (3) In some instances, receipts were not issued. Receipts were not always issued for interest from investments, payroll transfers, and other miscellaneous receipts.

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)

ADDITIONAL COMPENSATION FOR CLERK-TREASURER

Per Salary Ordinance 2004, adopted 11-20-04, the salary of the Clerk-Treasurer was increased by \$100 per month. This additional \$100 per month was paid effective November 2004. The Clerk-Treasurer received an additional \$200 during the year 2004.

Per Salary Ordinance Amendment 2005, adopted June 18, 2005, the Town Council approved an additional \$200 per month as compensation to the current Clerk-Treasurer, retroactive to May 2005. The Clerk-Treasurer received an additional \$1,600 during the year 2005.

Indiana Code 36-5-3-2 9(c) states: "The compensation of an elected town officer may not be changed in the year for which it is fixed, nor may it be reduced below the amount fixed for the previous year."

The Clerk-Treasurer, Hugh Burns, has been requested to repay \$1,800 in salary overpayments to the General Fund. (See Summary, page 11)

TOWN OF ELIZABETH
EXAMINATION RESULTS AND COMMENTS
(Continued)

SALARY ORDINANCE FOR TOWN COUNCIL

The salary for Town Council members was not included on any salary ordinance presented for audit.

Compensation of all town officers and employees shall be fixed by an ordinance of the town council. We recommend a salary ordinance for officials and employees for the next succeeding year should be enacted by the town council annually on or before July 1 of each year and made a part of the minutes of the town council. This action is recommended in order for town officials to have such information available prior to making out the annual budget for the next year's costs of operation. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CUSTOMER DEPOSIT REGISTER

The detailed customer deposit register does not reconcile with the customer deposit amount recorded on the general ledger. The difference is approximately \$4,400. Instances were noted in which customer deposits transactions were posted to the operating fund.

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)

ERRORS ON CLAIMS

The review of claims noted numerous instances where the claims or invoices were not accompanied by evidence to support the receipt of goods or services.

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;
- (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."

TOWN OF ELIZABETH
EXAMINATION RESULTS AND COMMENTS
(Continued)

INTEREST ON INVESTMENTS

Interest earned on some investments was automatically added to the principal and not recorded in the records.

Interest on investments should not be automatically added into the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ORDINANCES AND RESOLUTIONS – PRORATION OF SALARIES

All payroll expenditures are made from the Water Utility throughout the year. At the end of each year, transfers are generally made to reimburse the Water Utility for salaries that are the responsibility of the Town. During 2003, no reimbursements were made to the Water Utility for salaries of the Clerk-Treasurer, Town Council, or for salaries paid to mow the cemetery. In October 2004, the Town Council passed a resolution approving reimbursement to the Water Utility for the following: 1) hours worked in the cemetery, 2) \$3,600 for Town Council salaries and 3) \$1,200 for Clerk-Treasurer salary. The amount of \$7,000 was transferred to the Water Utility for Town salaries in 2004 and \$9,800 was transferred in 2005. No amounts were itemized on the accounts payable voucher transferring these monies. Actual salaries paid to the Clerk-Treasurer in 2003, 2004, and 2005 were \$6,000, \$6,200, and \$8,800, respectively. Actual salaries for the Town Council in 2003, 2004, and 2005 were \$7,800 each year. The Town maintained documentation of \$10,433.61 paid for work performed in the cemetery in 2004. The amount of \$2,854.02 was documented as being paid for work performed in the cemetery in 2005.

The officials should institute controls so that salaries are properly allocated between the Water Utility and Town operations. The Water Utility should only be charged for salaries associated with the Utility.

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)

ORDINANCES AND RESOLUTIONS - WATER RATES

The Water Utility adopted Ordinance No. 2001-01 withdrawing from the jurisdiction of the Indiana Utility Regulatory Commission (IURC). The current rate structure in effect was approved by the IURC on November 29, 1995. A new rate ordinance has not been adopted subsequent to the Utility's withdrawal from the IURC. The Water Utility has a contract to sell water to South Harrison Water Corporation at a rate of \$2.05 per metered thousand gallons. The contract rate charged is not in accordance with the current rate structure.

Additionally, the current rate structure requires that all users of the water system shall pay an annual fee for fire protection. During the audit period, the users of the water system were not charged for this fee.

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)

TOWN OF ELIZABETH
EXAMINATION RESULTS AND COMMENTS
(Continued)

ORDINANCES AND RESOLUTIONS - CEMETERY PERPETUAL CARE FUND

The Town has an ordinance stating that 50% of the proceeds received from the sale of cemetery graves are to be transferred to a Perpetual Care Fund. During the audit period, the Town did not maintain a Cemetery Perpetual Care Fund.

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)

RETIREMENT PLAN

On January 25, 2001, the Town of Elizabeth established and maintained a Savings Incentive Match Plan (Simple) IRA to provide retirement benefits for employees of the Town. During the audit period four Water Utility employees participated in the retirement plan

Indiana Code 5-10.2-2-1 states in part: "(d) The benefits specified in this article and the benefits from the Social Security Act provide the retirement, disability, and survivor benefits for public employees and teachers. However, this article does not prohibit a political subdivision from establishing and providing before January 1, 1995, and continuing to provide after January 1, 1995, retirement, disability, and survivor benefits for the public employees of the political subdivision independent of this article if the political subdivision took action before January 1, 1995, and was not a participant in the public employees' retirement fund on January 1, 1995, under this article of IC 5-10.3."

PRESCRIBED FORMS

The Annual City and Town Financial Report (CTAR-1) was submitted to the State Board of Accounts; however, it contained numerous errors and did not reconcile to the Town's records.

Additionally, the Town did not maintain an investment register, General Form 350.

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)

TOWN OF ELIZABETH
EXIT CONFERENCE

The contents of this report were discussed on October 3, 2006, with Hugh Burns, Clerk-Treasurer; and Michael Sampson, Town Council member. The contents of this report were also discussed on October 5, 2006, with Bradley Evans, President of the Town Council.

TOWN OF ELIZABETH
HARRISON COUNTY
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Hugh Burns, Clerk-Treasurer: Additional Compensation for Clerk-Treasurer, page 6, paid receipt 468, October 22, 2006	<u>\$ 1,800</u>	<u>\$ 1,800</u>	<u>\$ -</u>