

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF
CITY OF CHARLESTOWN
CLARK COUNTY, INDIANA
January 1, 2005 to December 31, 2005



FILED
11/29/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Donna Coomer	01-01-04 to 12-31-07
Mayor	Michael D. Hall	01-01-04 to 12-31-07
President of the Board of Public Works	Michael D. Hall	01-01-04 to 12-31-07
President of the Common Council	Terry Pierce Jeff Aaron	01-01-05 to 12-31-05 01-01-06 to 12-31-06
City Court Judge	George Waters	01-01-04 to 12-31-07
Superintendent of Water Utility	Allan Lesnet	01-01-05 to 12-31-06
Superintendent of Wastewater Utility	Mike Perry	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 CHARLESTOWN, CLARK COUNTY, INDIANA

We have examined the schedule of receipts, disbursements, and cash and investment balances of the City of Charlestown (City), 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

October 18, 2006

CITY OF CHARLESTOWN
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	\$ 191,870	\$ 3,086,470	\$ 3,157,116	\$ 121,224
Riverboat Wagering Revenue	37,790	37,791	72,663	2,918
Shop With A Cop	11,170	10,849	12,028	9,991
Local Roads and Streets	10,702	79,956	90,084	574
Street Cut Deposit Fund	-	11,055	11,055	-
Motor Vehicle Highway	132,527	304,484	436,999	12
Police Firearms Training	15	-	-	15
Planning and Zoning Grants	30	-	30	-
Police Grant DUI	99	11,503	11,012	590
FEMA Grant	36,803	-	36,803	-
Police Miscellaneous Revenue	3,872	25,257	20,984	8,145
Nonreverting Planning and Zoning Review and Development Fees Fund	64,227	128,817	155,029	38,015
Local Law Enforcement Continuing Education	221	4,106	4,201	126
Clerk's Record Perpetuation Fund	2,461	934	-	3,395
City Parks Capital Fund	8,929	19,093	27,320	702
Youth Coalition	-	6,317	5,981	336
Police K-9 Division	-	5,050	2,000	3,050
Nonreverting Capital Trust Fund	415,864	-	-	415,864
Capital Income	18,720	2,085,248	639,557	1,464,411
Sale of Hospital (99)	105,951	59,970	165,921	-
Vehicle Tow-In Fees	-	2,575	2,505	70
Cumulative Capital Improvement	21,515	18,526	11,939	28,102
Charlestown City Court Non-Reverting Fund	765	5,880	1,775	4,870
EDIT Fund	72,338	141,001	64,091	149,248
Economic Development	-	150,000	150,000	-
Economic Development Reuse Authority	189	-	-	189
Police Bicycle Fund	185	-	-	185
Beautification Fund	5,156	35,698	37,021	3,833
Mayor's Christmas Awards Dinner	2,329	-	1,412	917
Sanitation	(66,248)	-	-	(66,248)
Pleasant Ridge Revitalization	3,095	-	-	3,095
Proprietary Funds:				
Wastewater Utility - Operating	51,324	1,780,214	880,295	951,243
Wastewater Utility - Debt Service Reserve	127,000	-	-	127,000
Wastewater Utility - Bond and Interest	86,512	129,506	123,230	92,788
Water Utility - Operating	50,567	505,168	547,773	7,962
Water Utility - Customer Deposit	52,583	22,961	19,424	56,120
Fiduciary Funds:				
Police Pension	13,753	156,758	59,700	110,811
Payroll	20,498	1,744,422	1,741,141	23,779
User Fee Fund	-	15,315	12,715	2,600
City Court	6,240	67,292	50,162	23,370
Totals	<u>\$ 1,489,052</u>	<u>\$ 10,652,216</u>	<u>\$ 8,551,966</u>	<u>\$ 3,589,302</u>

The accompanying notes are an integral part of the schedules.

CITY OF CHARLESTOWN
NOTES TO SCHEDULE

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety, highways and streets, sanitation, culture and recreation, public improvements, planning and zoning, general administrative services, water and wastewater 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.

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 CHARLESTOWN
NOTES TO SCHEDULE
(Continued)

Note 6. Pension Plans

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 the 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 member's 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. The 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 plan members for PERF are established by the Board of Trustees of PERF.

b. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes 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' Pension Plan are established by state statute.

CITY OF CHARLESTOWN
NOTES TO SCHEDULE
(Continued)

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, wastewater refunding issue revenue bonds, bond anticipation notes for industrial park waterworks improvements, capital leases for equipment, and other lease purchases. The outstanding principal at December 31, 2005, was \$4,860,000, \$575,000, 227,872, and \$72,537, respectively.

Note 8. Subsequent Event

In 2006, the City issued Redevelopment District Tax Increment Revenue Bonds in the amount of \$590,000 to repay outstanding 2005 Bond Anticipation Notes (BANS) of \$575,000.

On April 7, 2006, the City approved ordinance 2006-5 authorizing a water rate increase.

In March 2006, the City purchased real estate property in the amount of \$101,000.

CITY OF CHARLESTOWN
EXAMINATION RESULTS AND COMMENTS

FAILURE TO DEPOSIT (Applies to Park and Recreation Department)

Monies collected at the pool for the period June 11 to June 20, 2005, were not being properly deposited with the Clerk-Treasurer's office. During this time period, the Pool Manager remitted money along with daily reports of collections, however, the amount remitted did not agree with the amounts shown as collected per the report of collections. Only checks and change (coins) were remitted to the Clerk-Treasurer's office. No cash (bills) were turned in with the collections.

The Clerk-Treasurer's office became concerned and obtained pool cash register tapes for comparison with monies remitted. The amounts collected per the pool cash register tapes were compared to the actual amounts remitted to the Clerk-Treasurer's office and those shown on the report of collections. The pool cash register tape showed \$2,371.02 more was collected than remitted.

Indiana Code 5-13-14-3 states in part: "A public officer who knowingly fails to deposit public funds . . . except in the manner prescribed in this article, commits a Class B felony. The public officer also is liable upon the officer's official bond for any loss or damage that may accrue."

The Pool Manager, Tony Lewis, was removed from his position and City officials requested Mr. Lewis to pay the City \$2,371.02, the difference between the amount actually remitted and what was reported as collected. At the request of City officials, Tony Lewis refunded \$2,371.92 to the City on July 12, 2005.

POOL INTERNAL CONTROLS (Applies to Park and Recreation Department)

A review of the financial records and practices at the City pool identified the following accountability problems:

1. Prescribed Forms:

Individual customer receipts were issued for pool passes and pool parties. Instead of using prescribed receipt forms (General Receipt, Form 352), which includes the name of the City, generic receipt books that can be purchased at any local store were used. The receipts issued were not retained for examination.

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)

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Supporting documentation such as receipts, canceled checks, 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)

CITY OF CHARLESTOWN
EXAMINATION RESULTS AND COMMENTS
(Continued)

2. Internal Controls:

(a) There were no controls over the receipts issued. No record was maintained of the receipt books purchased and the corresponding receipt numbers. Without proper controls over the actual receipt numbers purchased and issued to individuals for use, proper accountability over receipts issued cannot be determined.

(b) A cash register was used to account for collections at the pool. Instances were noted in which collections received for pool parties and season passes were not always being entered on the cash register. The monies, however, were being reported on the daily report of collections remitted to the Clerk-Treasurer's office.

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)

(c) A refund for a pool party was made from the daily cash collections rather than by check.

Disbursements, other than proper petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

(d) An inventory of concession products was not maintained in order to determine the proper accountability over concession products sold.

Internal controls over vending operations, concessions or other sales should include, at a minimum, a regular reconciliation of the beginning inventory, purchases, distributions, items sold and ending inventory to the amount received. Any discrepancies noted should be immediately documented in writing to proper officials. The reconciliation should provide an accurate accounting.

Persons with access to vending should be properly designated and access should be limited to those designated. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SANITATION COLLECTIONS (Applies to Board of Works)

A review of collections for the sale of garbage cans and sanitation tags for extra garbage pick ups identified the following accountability problems:

1. Prescribed Forms:

(a) Prescribed receipt forms (General Receipt, Form 352) were not in use. Instead of using prescribed receipt forms which includes the pre-printed name of the City of Charlestown, generic receipt books that can be purchased at any local store were used.

CITY OF CHARLESTOWN
EXAMINATION RESULTS AND COMMENTS
(Continued)

(b) Reports of Collections (Form 362) summarizing the source of revenue were not being used when collections were remitted to the clerk-treasurer's office. The lack of a report of collections made it difficult to determine the corresponding receipt numbers associated with the money being remitted and its source.

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)

2. Internal Controls:

(a) No record was maintained of the receipt books purchased and the corresponding receipt numbers. Without proper controls over the actual receipt numbers purchased and issued to individuals for use, proper accountability over receipts issued cannot be determined.

(b) An inventory record was not maintained for garbage cans and sanitation extra item pick up tags sold.

An inventory record showing the number of garbage cans and sanitation tags purchased, sold and the ending balance on hand should be maintained. The inventory record should be reconciled periodically with the actual items on hand. A reconciliation of the inventory record with the actual items on hand should be performed by someone other than the person responsible for collecting the fees.

(c) Receipts are issued and money is collected by various individuals. Each person is not responsible for his or her own collections therefore in the event of missing funds it would be difficult to determine the responsible person.

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)

3. Record Retention

Not all receipts issued were presented for examination. Receipts issued for January 2005 were not presented for examination. One receipt book used during 2005 had missing receipt numbers. The receipt book was used for both pool and sanitation collections. It could not be determined if the missing receipt numbers related to pool or sanitation collections.

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed.

CITY OF CHARLESTOWN
EXAMINATION RESULTS AND COMMENTS
(Continued)

APPROPRIATIONS (Applies to Clerk-Treasurer)

The records presented for examination indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Excess Expended</u>
Local Road and Street	\$ 32,972
Motor Vehicle Highway	83,473

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

OVERDRAWN FUND BALANCE (Applies to Clerk-Treasurer)

The Sanitation Fund had an overdrawn balance of \$66,248.

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)

COURT TRUST REGISTER (Applies to City Court)

The prescribed form, Register of Trust (General Form 102) was not used. Instead of using the prescribed register of trust, the court simply recorded trust financial activity on a legal size pad of paper making it difficult to determine the financial activity for each trust account and the associated outstanding trust balance.

Prescribed records and forms must be used. If, for any reason, your court has some ideas for changes or improvements, such changes shall be made with approval of the State Board of Accounts (Accounting and Uniform Compliance Guidelines for City and Town Courts, Chapter 1)

TIMELY DEPOSITS (Applies to City Court)

Fees collected by the City Court were not always deposited timely. Receipts tested showed funds were deposited 2 to 11 days following the receipt of the funds.

All funds collected by a city or town court shall be deposited not later than the business day following the receipt of the funds in depositories selected by the city or town as provided in an ordinance adopted by the city or town court. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

CITY OF CHARLESTOWN
EXAMINATION RESULTS AND COMMENTS
(Continued)

DISTRIBUTION OF COURT FEES (Applies to City Court)

Court fees received were not being distributed to the city fiscal officer every 30 days as required. Fees were being distributed 1 to 2 months late.

Indiana Code 33-37-7-12 states in part: " . . . not later than thirty (30) days after the clerk collects a fee, the clerk shall forward the fee . . . to the city or town fiscal officer if the clerk is the clerk of a city or town court.

CITY OF CHARLESTOWN
EXIT CONFERENCE

The contents of this report were discussed on October 18, 2006, with George Waters, City Court Judge. The official concurred with our findings.

The contents of this report were discussed on October 18, 2006, with Michael D. Hall, Mayor; and Donna Coomer, Clerk-Treasurer. The official response has been made a part of this report and may be found on page 14.

Audit 2005 - Clerk Treasurer Donna Coomer Response

SBA Comment - Expenditures in excess of budgeted appropriations

Fund

Local Roads and Street

December 2004, we had a major snow storm which cost the city more money than what was budgeted for. At that time, the state declared the storm a state disaster and FEMA would reimburse us for additional expenses over our budget and for property damages. When the city received reimbursement monies from FEMA, it was in January of the next year. Since it was a new year, I should have done an additional appropriation with Department of Local Government and Finance, since I did not ask for additional appropriation, it illustrates excess of budget appropriations.

Fund

Motor Vehicle Highway

The Motor Vehicle Highway Dept. paved several major roads throughout the city. The general fund had revenue that was not allocated and could be spent on paving. I completed the necessary steps for a transfer of revenue from the general fund to the motor vehicle highway dept. with the Department of Local Government and Finance. . But, I needed to take it one step further and do an additional appropriation and ask the DLGF permission to spend the revenue that was put in the Motor Vehicle from the general fund. Since I did not ask for the additional appropriation, it illustrates excess of budget appropriations.

Board of Works

When we were audited in 2004 State Board of Accounts made several suggestions for the Sanitation collections.

We were told generic receipt books would be valid as long as they indicated preprinted "City of Charlestown" and a specific receipt number to the sanitation department. Form 362 was being used and was kept in a file at front office, we were not told to turn into the clerks office.

In response to a,b,c, we were told to start the new procedures effective January 2006.