

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

EXAMINATION REPORT

OF

SALEM-WASHINGTON TOWNSHIP PUBLIC LIBRARY

WASHINGTON COUNTY, INDIANA

January 1, 2004 to December 31, 2005



FILED
01/25/2007

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OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|------------------------|---|--|
| Director | Eric Magness-Eubank | 07-01-03 to 06-30-07 |
| Treasurer | Bonny S. Boggs | 07-01-03 to 06-30-07 |
| President of the Board | John D. Fultz George Richardson John D. Fultz | 07-01-03 to 06-30-04 07-01-04 to 06-30-06 07-01-06 to 06-30-07 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE SALEM-WASHINGTON TOWNSHIP
PUBLIC LIBRARY, WASHINGTON COUNTY, INDIANA

We have examined the financial information presented herein of the Salem-Washington Township Public Library (Library), for the period of January 1, 2004 to December 31, 2005. The Library's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Except as described in the following paragraph, 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 financial information presented herein 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 financial records and annual reports presented for examination were incomplete and not reflective of the activity of the Library's funds. In addition, no bank reconciliations were performed during the examination period and no listing of outstanding checks was presented. As a result, the validity and accountability of cash and investments for the various funds as of December 31, 2004 and 2005, could not be established.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the bank reconciliations, annual reports, and the account balances of the various funds, the financial information referred to above present fairly, in all material respects, the financial information of the Library 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

November 22, 2006

SALEM-WASHINGTON TOWNSHIP PUBLIC LIBRARY
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL 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 |
|-----------------------------|-------------------------------------|-------------------|-------------------|-------------------------------------|
| Governmental Funds: | | | | |
| General | \$ 43,066 | \$ 328,038 | \$ 343,794 | \$ 27,310 |
| Gifts, Bequests and Grants | 105,585 | 4,839 | 13,511 | 96,913 |
| Rainy Day | - | 5,292 | - | 5,292 |
| Bond and Interest Reserve | (96,445) | 105,213 | 102,000 | (93,232) |
| Library Improvement Reserve | 11,616 | 15,000 | - | 26,616 |
| Construction | 14,823 | - | 14,823 | - |
| Fiduciary Funds: | | | | |
| Payroll Withholdings | 176 | - | - | 176 |
| PLAC | 79 | - | - | 79 |
| Totals | <u>\$ 78,900</u> | <u>\$ 458,382</u> | <u>\$ 474,128</u> | <u>\$ 63,154</u> |

| | Cash and Investments 01-01-05 | Receipts | Disbursements | Cash and Investments 12-31-05 |
|------------------------------|-------------------------------------|-------------------|-------------------|-------------------------------------|
| Governmental Funds: | | | | |
| General | \$ 27,310 | \$ 545,319 | \$ 356,228 | \$ 216,401 |
| Gifts, Bequests and Grants | 96,913 | 9,506 | 6,320 | 100,099 |
| Rainy Day | 5,292 | - | - | 5,292 |
| Bond and Interest Redemption | (93,232) | 202,784 | 99,000 | 10,552 |
| Library Improvement Reserve | 26,616 | 5,122 | - | 31,738 |
| Fiduciary Funds: | | | | |
| Payroll Withholdings | 176 | - | - | 176 |
| PLAC | 79 | - | - | 79 |
| Totals | <u>\$ 63,154</u> | <u>\$ 762,731</u> | <u>\$ 461,548</u> | <u>\$ 364,337</u> |

The accompanying notes are an integral part of the schedules.

SALEM-WASHINGTON TOWNSHIP PUBLIC LIBRARY
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The Library was established under the laws of the State of Indiana. The Library provides cultural services.

Note 2. Fund Accounting

The Library 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 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 Library 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 Library 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.

SALEM-WASHINGTON TOWNSHIP PUBLIC LIBRARY
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Library 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 Library 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. Payments to PERF of \$7,404, and \$7,806 were made for calendar years 2004, and 2005, respectively. Payments consisted of \$3,417, and \$3,566 from employees and \$3,987, and \$4,240 from the Library. Information covering the Pension Benefit Obligation and the assets held by PERF for the Library is available from PERF.

Note 7. Long-Term Debt

The Library has entered into a lease/rental agreement with the Salem-Washington Township Public Library Building Corporation. The outstanding principal at December 31, 2005, was \$1,483,000.

SALEM-WASHINGTON TOWNSHIP PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS

ERRORS ON CLAIMS/ACCOUNTS PAYABLE VOUCHERS

The review of disbursements indicated numerous instances in which the Librarian/Director was not properly approving the accounts payable vouchers prior to payment.

Indiana Code 36-12-3-16 provides that "each payment of expenses lawfully incurred for library purposes must be supported by a fully itemized invoice or other documentation. The library director must certify to the library board before payment that each claim for payment is true and correct. This certification must be on a form prescribed by the State Board of Accounts." To satisfy the certification requirements, the library director may either sign each accounts payable voucher individually or sign in the area designated on the Accounts Payable Voucher Register, General Form 364. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 3)

RECEIPT ISSUANCE

The review of receipts disclosed two instances where receipts were not issued or recorded for Commercial Vehicle Excise Tax and Financial Institutions Tax distributions from the County Auditor. The distributions totaled \$1,605, and were verified to bank deposits.

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 Libraries, Chapter 4)

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) Financial records presented for examination were incomplete and not reflective of the activity of some of the Library's funds.
- (2) Bank reconcilements and outstanding check lists were not provided for examination.
- (3) The records contained numerous posting errors. These errors included deposits not posted, receipts not issued or posted, and transactions not posted to the appropriated funds on the ledger.

The records presented did not provide sufficient information to audit or establish receipts, disbursements, ending balances, or the accuracy or correctness of the transactions.

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 Libraries, Chapter 4)

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 Libraries, Chapter 4)

SALEM-WASHINGTON TOWNSHIP PUBLIC LIBRARY
EXAMINATION RESULTS AND COMMENTS
(Continued)

INTEREST ON INVESTMENTS

Interest earned on 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 Libraries, Chapter 4)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were not presented for audit for the years 2004 and 2005.

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."

PRESCRIBED FORMS

The following prescribed or approved forms were not used in the manner prescribed.

- (1) Form 1 Library Financial and Appropriation Record
- (2) Form 352 - Receipt
- (3) Form 99a - Employees Service Record

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 Libraries, Chapter 4)

PENALTIES, INTEREST AND OTHER CHARGES

On June 6, 2005, penalties and interest in the amount of \$66.49 were paid to the Indiana Department of Revenue for not properly remitting state and local income taxes for the period ending December 31, 2003.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Libraries, Chapter 4)

SALEM-WASHINGTON TOWNSHIP PUBLIC LIBRARY
EXIT CONFERENCE

The contents of this report were discussed on December 13, 2006, with Eric Magness-Eubank, Director; Bonny S. Boggs, Treasurer; and John D. Fultz, President of the Board. The official response has been made a part of this report and may be found on pages 10 through 11.

Salem Public Library
212 North Main Street
Salem, Indiana 47167



(812) 883-5600

Official Response
State Board of Accounts
302 West Washington, room E 418
Indianapolis, IN 46204-2765

December 20, 2006

Recently, the State Board of Accounts conducted an audit of the Salem-Washington Township Public Library. Several problems were identified during this audit. I would like to comment on these items.

Errors on Claims/Accounts Payable Vouchers

The items identified by the field examiner, were all items the library board had approved payment of without waiting for board meetings, such as payroll taxes and utility payments. I erroneously believed that vouchers for these items were unneeded, since they had direct board approval. I have made the changes prescribed by Accounting and Uniform Compliance Guidelines Manual for Libraries.

Receipt Issuance

It is the practice of the library to issue receipts. Ordinarily, the receipt books are checked against bank statements to verify all deposits are accounted for. A review of how these responsibilities are allocated will be conducted in order to ensure compliance.

Condition of Records

The library has decided to retain a consultant to completely overhaul the library's bookkeeping practices. Library management agrees that the results of this finding are unacceptable.

Interest on Investments

The library did actually cash in the certificate of deposit and purchase a new investment. However, it was not posted correctly to the ledger, and the interest from the investment was included in the purchase of the new investment. The field examiner and I had a detailed conversation on the correct posting of this type of transaction.

Prescribed Forms

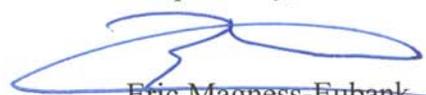
1. Form 1 -- Library Financial and Appropriation Ledger
2. Form 352 -- Receipt Book

Part of the problems with this form or elaborated under the discussion of receipt issuance above. The other problem is that this form also provides for the detailing of the exact form that was received by the governmental unit (e.g., cash, check). This was not done. This aspect of this form was not mentioned in previous audits. This will be corrected.

Penalties Interest and Other Charges

It was the opinion of the field examiner that the library did not actually owe the penalty applied by the Indiana Department of Revenue. On several occasions, the treasurer did attempt to receive an explanation of this penalty from the Department of Revenue. However, the library did not challenge or appeal the penalty.

Respectfully,



Eric Magness-Eubank
Library Director