

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

EXAMINATION REPORT

OF

TOWN OF VERNON

JENNINGS COUNTY, INDIANA

January 1, 2005 to December 31, 2006



**FILED**  
08/02/2007



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Marietta Jean Rockey	03-05-01 to 03-05-09
Mayor	Dan Wright	03-04-04 to 03-05-09



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF VERNON, JENNINGS COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Vernon (Town), for the period of January 1, 2005 to December 31, 2006. The Town's management is responsible for the financial information presented herein. 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 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.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the Town for the years ended December 31, 2005 and 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

June 19, 2007

TOWN OF VERNON  
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL AND PROPRIETARY FUND TYPES  
As Of And For The Years Ended December 31, 2005 And 2006

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
<b>Governmental Funds:</b>				
General	\$ 32,663	\$ 30,763	\$ 33,576	\$ 29,850
Motor Vehicle Highway	10,126	10,054	10,304	9,876
Local Road and Street	3,627	1,910	2,657	2,880
Park and Recreation	344	-	-	344
Riverboat	4,186	2,106	-	6,292
Gym	17,308	13,523	16,068	14,763
Gift	15,540	2,451	5,635	12,356
Cumulative Capital Improvement	9,908	1,020	386	10,542
County Economic Development Income Tax (CEDIT)	27,624	7,391	31,000	4,015
<b>Proprietary Funds:</b>				
Water Utility - Operating	81,523	86,185	76,544	91,164
Water Utility - Bond and Interest	8,308	30,000	30,118	8,190
Water Utility - Reserve	39,350	3,380	-	42,730
Water Utility - Customer Deposit	6,838	700	296	7,242
Wastewater Utility - Operating	44,771	83,733	94,684	33,820
Wastewater Utility - Bond and Interest	20,180	-	10,070	10,110
Wastewater Utility - Depreciation	19,161	-	19,000	161
Wastewater Utility - Customer Deposit	2,758	810	369	3,199
Wastewater Utility - Match Money	-	99,105	81,094	18,011
Wastewater Utility - Grant Money	-	241,342	241,342	-
Wastewater Utility - Retainage	-	20,222	-	20,222
<b>Totals</b>	<u>\$ 344,215</u>	<u>\$ 634,695</u>	<u>\$ 653,143</u>	<u>\$ 325,767</u>

The accompanying notes are an integral part of the financial information.

TOWN OF VERNON  
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL AND PROPRIETARY FUND TYPES  
As Of And For The Years Ended December 31, 2005 And 2006  
(Continued)

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
<b>Governmental Funds:</b>				
General	\$ 29,850	\$ 30,792	\$ 37,520	\$ 23,122
Motor Vehicle Highway	9,876	12,104	13,201	8,779
Local Road and Street	2,880	1,840	231	4,489
Park and Recreation	344	-	-	344
Riverboat	6,292	2,112	-	8,404
Gym	14,763	14,163	16,902	12,024
Gift	12,356	2,680	868	14,168
Cumulative Capital Improvement	10,542	1,179	-	11,721
County Economic Development Income Tax (CEDIT)	4,015	8,226	-	12,241
<b>Proprietary Funds:</b>				
Water Utility - Operating	91,164	93,326	97,052	87,438
Water Utility - Bond and Interest	8,190	30,000	29,717	8,473
Water Utility - Reserve	42,730	3,397	-	46,127
Water Utility - Customer Deposit	7,242	580	260	7,562
Wastewater Utility - Operating	33,820	74,123	101,756	6,187
Wastewater Utility - Bond and Interest	10,110	9,900	10,680	9,330
Wastewater Utility - Depreciation	161	-	-	161
Wastewater Utility - Customer Deposit	3,199	750	360	3,589
Wastewater Utility - Match Money	18,011	2,666	15,115	5,562
Wastewater Utility - Grant Money	-	55,629	55,629	-
Wastewater Utility - Retainage	20,222	5,396	25,618	-
<b>Totals</b>	<u>\$ 325,767</u>	<u>\$ 348,863</u>	<u>\$ 404,909</u>	<u>\$ 269,721</u>

The accompanying notes are an integral part of the financial information.

TOWN OF VERNON  
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety (police), highway and streets, culture and recreation, public improvements, sanitation, general administrative services, water and wastewater.

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.

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.

TOWN OF VERNON  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2006

Description	Ending Balance	Due Within One Year
Business-type Activities:		
Water Utility		
Revenue bonds:		
Waterworks Improvements Bonds of 1992	\$ 426,350	\$ 9,000
Wastewater Utility		
Revenue bonds:		
Sewage Works Improvements Revenue Bonds of 1994	<u>69,000</u>	<u>6,000</u>
Total business-type activities long-term debt:	<u>\$ 495,350</u>	<u>\$ 15,000</u>

TOWN OF VERNON  
EXAMINATION RESULTS AND COMMENTS

OPTICAL IMAGES OF WARRANTS (Applies to Clerk-Treasurer, Water, and Wastewater Utilities)

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned only an optical image of the front side of the checks.

Indiana Code 5-15-6-3 concerning optical imaging of checks states in part:

"(a) . . . 'original records' . . . includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . . "

Further, Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

CAPITAL ASSET RECORDS (Applies to Clerk-Treasurer)

The Town does not maintain detailed records of capital assets for its governmental activities or its proprietary funds.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

GYM RENTAL ACCOUNTING PROCEDURES (Applies to Clerk-Treasurer and Town Council)

We found the following deficiencies regarding the accounting for gym rental collections:

1. No receipts were issued at the time monies were collected.

TOWN OF VERNON  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

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)

General Receipt Form 352 is to be issued for all monies received.

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. A Report of Collections (Form 362) was not prepared at the time monies were remitted to the Clerk-Treasurer. The Reports of Collections represented a summary of monies collected, but were not prepared in a manner that could be verified to receipts issued by the Clerk-Treasurer or verified to the gym rental scheduling book.

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)

3. Danny Stark, Gym Scheduler and Town Council Member, stated most gym rentals are paid at the time the gym is rented. However, there are instances when the gym is rented to an organization that does not pay timely. We noted the following:
  - a. The scheduling book shows the dates and times the gym is rented, but did not have a reference to receipt numbers or dates paid. As a result, there is no formal record showing any unpaid gym rentals.
  - b. For organizations that do not pay at the time the gym is rented, there is no payment agreement between the Town and the organization specifying when gym rental payments are due.
  - c. There is no formal reporting to the Clerk-Treasurer or the Town Council of unpaid rentals showing the name of the organization, gym rental dates and amount owed.

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)

CONDITION OF RECORDS (Applies to Clerk-Treasurer)

The following deficiencies relating to recordkeeping were noted:

1. Six instances were noted where receipts were not dated.
2. Receipt numbers were not recorded on Form 358, Ledger of Receipts, Disbursements and Balances.

TOWN OF VERNON  
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)

COMPENSATION AND BENEFITS (Applies to Town Council)

No salary ordinance was adopted by the Town Council.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PRESCRIBED FORMS (Applies to Water and Wastewater Utilities)

The forms generated by the Utilities' computer system have not been submitted to the State Board of Accounts for approval. In addition, forms generated by the computer system did not provide a control for accounts receivable and did not provide customer histories. The following prescribed forms must be kept if an alternative form is not available or has not been approved in lieu of the prescribed form:

- (1) General Ledger Sheet (Form 315) has been prescribed for use as an accounts receivable control.
- (2) Consumer Ledger - Municipal Water and Sewer Utility Combined (Form 322) has been prescribed to provide customer history information.

When Utility records are kept on a cash or single-entry basis, a separate control account should be carried on General Form 315, in the front of the Consumer's Ledger. This account will be debited with the total monthly billing to all customers for utility service including penalties and sales tax. This account will be credited with the total accounts receivable collections, penalties, and sales tax shown by the Register of Daily Cash Receipts-Consumers. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, 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 Cities and Towns, Chapter 7)

ORDINANCES AND RESOLUTIONS (Applies to the Water Utility)

The Water Utility has an ordinance concerning the application of penalties for the untimely payment of utility bills. The Ordinance states that a 10% penalty will be charged on the first \$3 unpaid on the due date and 3% on the remaining balance. The Utility's computer system automatically calculates the penalties for late payment by charging 10% on the first \$3 and 3% on the overall unpaid balance. This calculation causes an over billing of penalties on the first \$3 of delinquent customer bills.

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 VERNON  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

CUSTOMER DEPOSIT REGISTERS (Applies to Water and Wastewater Utilities)

The detailed customer deposit registers did not reconcile with the respective customer deposit cash balances for the Water and Wastewater Utilities as of December 31, 2006. Disbursements for refunds and applications from new customer deposits for 2005 and 2006 were not posted in the respective registers.

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)

TOWN OF VERNON  
EXIT CONFERENCE

The contents of this report were discussed on June 19, 2007, with Dan Wright, Mayor; and Marietta Jean Rockey, Clerk-Treasurer. The officials concurred with our findings.