

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

EXAMINATION REPORT

OF

CITY OF BRAZIL

CLAY COUNTY, INDIANA

January 1, 2006 to December 31, 2006



FILED
11/05/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Tracy L. Webster	08-31-04 to 12-31-07
Mayor	Thomas L. Arthur Anthea A. Bradshaw	01-04-04 to 06-30-07 07-01-07 to 12-31-07
President of the Board of Public Works and Safety	Thomas L. Arthur Anthea A. Bradshaw	01-01-06 to 06-30-07 07-01-07 to 12-31-07
President of the Common Council	Anthea A. Bradshaw James Sheese	01-01-06 to 06-30-07 07-01-07 to 12-31-07
Superintendent of Water Utility	Richard E. Vanatti	01-01-06 to 12-31-07
Co-Superintendents of Wastewater Utility	Jerry D. Robison Terry L. Robison	01-01-06 to 12-31-07 01-01-06 to 12-31-07
Utilities Office Manager	Sheryl J. Hill	01-01-06 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF BRAZIL, CLAY COUNTY, INDIANA

We were engaged to examine the financial statements of the City of Brazil (City), for the period of January 1, 2006 to December 31, 2006. The City's management is responsible for the financial statements. Our responsibility is to express an opinion based on our examination.

Financial records presented for examination were incomplete and not reflective of the activity of the City or Utility funds. The records presented did not provide sufficient information to examine receipts, disbursements, and ending balances, or the accuracy or correctness of the transactions.

No financial statements are reflected in this report because records were not in the proper condition or not available to examine. However, we did examine available records to the extent possible for compliance with the State statutes and with the Accounting and Uniform Compliance Guidelines Manual for Cities and Towns published by the State Board of Accounts. The results of this examination are stated in the Examination Results and Comments.

STATE BOARD OF ACCOUNTS

September 6, 2007

CITY OF BRAZIL
EXAMINATION RESULTS AND COMMENTS

PENALTIES (City)

Tax penalties were assessed due to federal tax payments not being made by the required dates. The following penalties were identified:

Penalties paid to the Internal Revenue Service on March 16, 2006, for the period ending December 31, 2005.	\$ 1,028.55
Penalties paid to the Internal Revenue Service on August 8, 2006, for the period ending June 30, 2006.	1,829.52
Penalties paid to the Internal Revenue Service on December 13, 2006, for the period ending September 30, 2006.	403.36
Penalties totaling \$4,395.25 were paid to the Internal Revenue Service on June 8, 2007, for the period ending December 31, 2006. These penalties were later reduced by the Internal Revenue Service to \$2,789.68.	<u>2,789.68</u>
Total Penalties	<u>\$ 6,051.11</u>

Tracy L. Webster, Clerk-Treasurer, was requested to reimburse the City of Brazil in the amount of \$6,051.11. (See Summary, page 11)

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 Cities and Towns, Chapter 7)

OFFICIAL BOND COVERAGE

Tracy L. Webster, Clerk-Treasurer, was bonded by the Merchants Bonding Company in the amount of \$35,000 for the periods of September 15, 2004 to September 14, 2006, and September 15, 2006 to September 14, 2007.

EXAMINATION REPORT OPINION MODIFICATION/CONDITION OF RECORDS (City and Utilities)

Based on the following conditions as reported in the prior two Reports B26092 and B28563, the State Board of Accounts was unable to provide an opinion on the Independent Accountant's Report for the financial statements:

1. Depository reconciliations of the fund balances to the bank account balances were incorrect as of December 31, 2006, for the Payroll Account, City's Pooled Cash Account and Utilities Pooled Cash Account.

CITY OF BRAZIL
EXAMINATION RESULTS AND COMMENTS
(Continued)

2. Depository reconciliations of the fund balances to the bank account balances were not prepared or presented for examination as of December 31, 2006, for the following bank accounts: Golf Account, Law Enforcement Fund Account, Fire Equipment Fund Account, Police Pension Fund Account, and Fire Pension Fund Account.
3. Twenty-six of thirty-six checks listed as outstanding as of December 31, 2006, for the City's Pooled Cash Account were found to have previously cleared the bank, two checks cleared as early as January. One handwritten check issued for \$35.70, dated December 28, 2006, was not included on the outstanding check list at December 31, 2006. Twenty-five of twenty-nine outstanding checks, subsequently clearing the bank, were imprinted with a different check number than that listed on the outstanding check list, although the date, payee and amount agreed. Bank balances per the reconciliation statements did not agree to balances per the bank statements. Golf Fund interest earned, credit card service charges and loan transactions were not posted. Ledger receipt postings to the Payroll Fund did not match bank account transactions for the period September 2006 through December 2006.
4. The following errors were noted while testing for proper posting of 2006 local tax distributions:
 - a. Three property tax distributions for the Cumulative Capital Development Fund, the General Obligation Bond Fund and the Redevelopment Bond Fund were erroneously posted to the Emergency Response Team Fund, the Cumulative Capital Development Fund and the General Obligation Bond Fund.
 - b. Both county excise tax distributions for the General Obligation Bond Fund and the Redevelopment Bond Fund were erroneously posted to the Cumulative Capital Development Fund and the General Fund.
 - c. Both financial institutions tax distributions for the General Obligation Bond Fund and the Redevelopment Bond Fund were erroneously posted to the Sidewalk Construction Bond I Fund and the Sidewalk Construction Bond II Fund.
 - d. Both commercial vehicle excise tax distributions for the General Obligation Bond Fund and the Redevelopment Bond Fund were erroneously posted to the Sidewalk Construction Bond I Fund, the Sidewalk Construction Bond II Fund and the Cumulative Capital Development Fund.
 - e. One financial institutions tax distribution and one commercial vehicle tax distribution were erroneously posted twice to the Fire Pension Fund.
 - f. Local tax distributions of \$908,832 deposited to the bank on December 22, 2006, were not posted until January 11, 2007, causing year end fund balances to be understated.

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

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 Cities and Towns, Chapter 7)

CITY OF BRAZIL
EXAMINATION RESULTS AND COMMENTS
(Continued)

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DEPOSITS (City)

In numerous instances, receipts were deposited later than the next business day.

Indiana Code 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

TIMELY RECORDKEEPING (City)

We noted instances of receipts issued with up to one month between the time of the original date of the transaction until entry on the records.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with Indiana Code 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ERRORS ON CLAIMS (City)

The following deficiencies were noted on claims during the examination period:

1. All claims did not have board approval. Direct payables such as utility bills, insurance, and payroll withholdings were not routinely submitted for subsequent board approval.
2. Claims did not have supporting documentation attached. Supporting documentation for claims was filed in the same folder, but not identified as to the issued check it supported.

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;

CITY OF BRAZIL
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (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."

SALES TAX (City)

Sales tax was routinely paid on some petty cash purchases.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS (City)

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

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
General	2006	<u>\$ 333,971</u>

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."

ORDINANCES AND RESOLUTIONS (City and Utilities)

As noted in prior reports, the most current being B28563, Ordinances 8-1993 and 9-1996 established the usage charges for the Water and Wastewater Utilities. The City is not being billed for water and wastewater usage for all locations.

While meters are read for city hall and the city golf course usage, no bill is prepared computing the amount due based on the readings. For several other city locations, such as the city swimming pool, water treatment plant, and wastewater treatment plant, meters are not present to track usage.

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)

CITY OF BRAZIL
EXAMINATION RESULTS AND COMMENTS
(Continued)

ANNUAL REPORT (City)

An annual report for 2006 was not presented for examination.

Indiana Code 5-3-1-3(a) states in part: "Within sixty (60) days after the expiration of each calendar year, the fiscal officer of each civil city and town in Indiana shall publish an annual report of the receipts and expenditures of the city or town . . ."

PRESCRIBED FORMS (City and Utilities)

As noted in the prior Report B28563, the following prescribed or approved forms were not always in use: Register of Investments (General Form 350) and Ledger of Appropriations, Encumbrances, Disbursements and Balances (City and Town Form 209).

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS (Utilities)

The Utilities do not maintain sufficient detailed records of capital assets for Utility Plant in Service accounts. Upon purchase, the costs of the capital assets are added to an aggregate Utility Plant in Service account, and to subsidiary accounts for land, buildings, etc., in the General Ledger. However, records providing historical costs for some of the Utilities' capital assets are not available, and records classifying and summarizing the Utilities' capital assets are incomplete.

Every governmental unit should have a complete inventory of all capital assets owned which reflects 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)

OFFICIAL BONDS (City)

The following official bonds were not filed in the office of the County Recorder: employee dishonesty bonds for 2006 and 2007.

In addition, the official bonds for the Clerk-Treasurer and Deferral Program Administrator were bonded to the City of Brazil, not the State of Indiana. Also, the bond for the Deferral Program Administrator was issued for \$5,000, not \$8,500.

Indiana Code 5-4-1.5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder . . ."

Indiana Code 5-4-1-10 states in part: "All official bonds shall be payable to the state of Indiana; and every such bond shall be obligatory to such state, upon the principal and sureties, . . ."

Indiana Code 5-4-1-18 (c) states in part: "The fiscal bodies of the respective units shall fix the amount of the bond of city controllers, city clerk-treasurers . . . The amount of the bond of any other person required to file an individual bond shall be fixed by the fiscal body of the unit at not less than eight thousand five hundred dollars (\$8,500)."

CITY OF BRAZIL
EXIT CONFERENCE

The contents of this report were discussed on September 6, 2006, with Tracy L. Webster, Clerk-Treasurer; Anthea A. Bradshaw, Mayor; and Sheryl J. Hill, Utilities Office Manager. The official response has been made a part of this report and may be found on page 10.



CITY OF BRAZIL

Ann Bradshaw, Mayor
Tracy Webster, Clerk-Treasurer

203 East National Avenue
Brazil, Indiana 47834
Phone: (812) 443-2221
Fax: (812) 446-0337
www.brazil.in.gov

To: Sharon Coopridner
State Board Of Accounts

From: Tracy Webster, Clerk-Treasurer

Date: September 5, 2007

Re: Tax audit charges

I am the City Clerk-Treasurer for Brazil, Indiana. I have a deputy clerk Janet Wallace who is responsible for the computation and payment of taxes and payroll. Apparently she was delinquent for the tax periods 12/31/05, 06/30/2006, 09/30/2006 and 12/31/2006. I was only aware of one delinquent penalty. Janet has admitted responsibility for the delinquency of these taxes. I have contacted City Attorney Eric Wyndham and he is in the process of contacting the IRS to see if any penalties may be waived.

Martin Beasley • A. Ann Bradshaw • Patricia Heffner • William Lovett • James Sheese
Council Members

CITY OF BRAZIL
CLAY COUNTY
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Tracy L. Webster, Clerk-Treasurer: Penalties, page 4	<u>\$ 6,051.11</u>	<u>\$ -</u>	<u>\$ 6,051.11</u>

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AFFIDAVIT

STATE OF INDIANA)
)
VIGO COUNTY)

I, Sharon Coopriden, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the City of Brazil, Clay County, Indiana, for the period from January 1, 2006 to December 31, 2006, is true and correct to the best of my knowledge and belief.

Sharon Coopriden
Field Examiner

Subscribed and sworn to before me this 16 day of Oct, 2007.

Patricia J. Thomas
Clerk of the Circuit Court *AKY*