

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

EXAMINATION REPORT

OF

TOWN OF EDGEWOOD

MADISON COUNTY, INDIANA

January 1, 2005 to December 31, 2006



FILED
11/30/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Financial Information:	
Schedules of Receipts, Disbursements, and Cash and Investment Balances	4
Notes to Financial Information	5-6
Supplementary Information:	
Schedule of Capital Assets.....	7
Other Report	8
Examination Results and Comments:	
Bank Reconciliations and Adjustments to Records.....	9
Transaction Recording	9
Payment for Services Not Related to Town Duties	10
Investments	10
Interest on Investments	10-11
Official Bonds.....	11
Exit Conference.....	12
Official Response	13-16

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Katherine L. Tanner	01-01-04 to 12-31-07
President of the Town Council	Patricia Farran	01-01-05 to 12-31-07
Superintendent of Utilities	Wilbur Wood	01-01-05 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF EDGEWOOD, MADISON COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Edgewood (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.

The Schedule of Capital Assets is presented for additional analysis and is not a required part of the basic financial information. It has not been subjected to the examination procedures applied to the basic financial information, and accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

October 18, 2007

TOWN OF EDGEWOOD
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY 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
Governmental Funds:				
General	\$ 202,352	\$ 464,337	\$ 527,476	\$ 139,213
Motor Vehicle Highway	55,189	62,513	64,958	52,744
Local Road and Street	75,334	21,686	2,500	94,520
Police Grant	56	6,414	6,492	(22)
LLECE	13,712	1,161	425	14,448
Court User Fees	48,682	7,794	6,622	49,854
Clerk's Perpetuation	13,983	5,329	5,607	13,705
Riverboat	25,107	12,554	500	37,161
Enhancement Fund	13,249	120	7,051	6,318
Restricted Donation	10,375	100	239	10,236
Nonappropriated	706	6,651	5,864	1,493
Storm Water Bond	(1,467)	-	-	(1,467)
CCI	21,541	6,146	6,629	21,058
Proprietary Funds:				
Water Utility - Operating	402,768	173,662	174,735	401,695
Water Utility - Depreciation	193,519	22,577	28,507	187,589
Water Utility - Customer Deposit	55,742	6,230	1,844	60,128
Water Utility - Dep Refund	1,732	1,844	2,363	1,213
Wastewater Utility - Operating	784,673	301,465	280,915	805,223
Fiduciary Funds:				
Payroll	-	451,372	451,425	(53)
Levy Excess	2,497	-	-	2,497
Town Court	104,972	542,422	531,126	116,268
Totals	<u>\$ 2,024,722</u>	<u>\$ 2,094,377</u>	<u>\$ 2,105,278</u>	<u>\$ 2,013,821</u>

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 139,213	\$ 473,466	\$ 505,609	\$ 107,070
Motor Vehicle Highway	52,744	100,911	75,774	77,881
Local Road and Street	94,520	46,963	82,264	59,219
Police Grant	(22)	6,767	6,745	-
LLECE	14,448	1,082	330	15,200
Court User Fees	49,854	6,384	4,959	51,279
Clerk's Perpetuation	13,705	10,439	10,227	13,917
Riverboat	37,161	17,750	7,915	46,996
Enhancement Fund	6,318	6,186	1,130	11,374
Restricted Donation	10,236	50,125	21,796	38,565
Nonappropriated	1,493	-	94	1,399
Storm Water Bond	(1,467)	1,467	-	-
CCI	21,058	7,102	-	28,160
Proprietary Funds:				
Water Utility - Operating	401,695	250,252	273,255	378,692
Water Utility - Depreciation	187,589	22,052	462	209,179
Water Utility - Customer Deposit	60,128	31,400	29,177	62,351
Water Utility - Dep Refund	1,213	1,976	1,922	1,267
Wastewater Utility - Operating	805,223	431,685	599,271	637,637
Fiduciary Funds:				
Payroll	(53)	447,805	447,540	212
Levy Excess	2,497	-	-	2,497
Town Court	116,268	579,761	559,680	136,349
Totals	<u>\$ 2,013,821</u>	<u>\$ 2,493,573</u>	<u>\$ 2,628,150</u>	<u>\$ 1,879,244</u>

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

TOWN OF EDGEWOOD
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, highways and streets, culture and recreation, public improvements, planning and zoning, 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. 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.

TOWN OF EDGEWOOD
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Town 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 Town 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.

Note 7. Rate Increase

The Water and Wastewater Utilities rates were increased by Ordinance No. 12-19-06. The new rates will become effective on January 1, 2007.

TOWN OF EDGEWOOD
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

General infrastructure assets are included if acquired (purchased, constructed, or donated) after July 1, 1980, or if they received major renovations, restorations, or improvements after that date. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land & Buildings	\$ 330,613
Infrastructure	689,416
Buildings	-
Improvements other than buildings	229,475
Machinery and equipment	173,370
Transportation Equipment	182,462
Construction in progress	<u>-</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 1,605,336</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 3,300
Construction in progress	-
Buildings	211,718
Improvements other than buildings	146,576
Machinery and equipment	91,130
Transportation Equipment	<u>57,864</u>
Total Water Utility capital assets	<u>510,588</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	\$ 10,830
Construction in progress	-
Buildings	172,301
Improvements other than buildings	2,231,347
Machinery and equipment	55,867
Transportation Equipment	<u>6,697</u>
Total Wastewater Utility capital assets	<u>2,477,042</u>
Total business-type activities capital assets	<u>\$ 2,987,630</u>

TOWN OF EDGEWOOD
OTHER REPORT

The report presented herein was prepared in addition to the official report prepared for the individual Town office listed below:

Town Court

TOWN OF EDGEWOOD
EXAMINATION RESULTS AND COMMENTS

BANK RECONCILIATIONS AND ADJUSTMENT TO RECORDS

Prior to December 2006, the Town's monthly reconciliations between the book and bank balances contained some unidentified errors. In December 2006, the Town posted an adjustment to the records which eliminated the total variance in the bank reconciliation. The adjustment was posted to the Water Depreciation Fund as a disbursement in the amount of \$5,037.74. There was not proper support for the adjustment. The adjustment should be reversed since it does not represent an actual transaction.

Prior to June 2006, the Town had carried a relatively consistent difference in the bank reconciliation of approximately \$145.15. Some errors in bookkeeping occurred in June 2006 which were identified during the examination but not originally identified by the Town (see transaction recording). These errors contributed to difficulties in accurately reconciling the book and bank balances. After taking the known errors into consideration and reversing the unallowable adjustment, the depository reconciliations indicated cash necessary to balance of \$382.78 as of December 31, 2006.

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)

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."

TRANSACTION RECORDING

A reallocation of payroll expense was not properly recorded, which resulted in \$4,654.96 of disbursements not being posted to the records. The original postings were not properly divided between the correct funds, so a correction was made to post the expenses to the correct fund. The error occurred when a portion of the correcting entry was not posted to the Motor Vehicle Highway Fund. This error occurred in June 2006 and contributed to the bank reconciliation being out of balance with the book balance. The Motor Vehicle Highway Fund payroll disbursement was not detected until the examination and should be posted to the records.

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)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF EDGEWOOD
EXAMINATION RESULTS AND COMMENTS
(Continued)

PAYMENT FOR SERVICES NOT RELATED TO TOWN DUTIES (Applies to Town Police Department)

At the request of her supervisor, a Town employee performed services which were not related to business of the Town of Edgewood. The Town Marshal had the employee prepare materials to be used while teaching at Indiana Business College. The employee estimated that 10 hours of her time went into preparing the materials. The Town Marshal reimbursed \$90.40 for the employee's time on November 13, 2006. The Town Council discussed the issue during the December 19, 2006, meeting. The minutes stated the Council voted to issue a written reprimand which will be placed in the Town Marshal's file.

Indiana Code 35-44-2-4 (b) states in part: "A public servant who knowingly or intentionally assigns to an employee under his supervision any duties not related to the operation of the governmental entity that he serves commits ghost employment, a Class D felony."

INVESTMENTS

The Register of Investments (General Form 350) was not in use. The Town maintained an alternate investment record that did not contain all of the information on the prescribed form.

The purchasing and selling investments were not always recorded in the fund ledger because the Town did not always issue a warrant to purchase a new Certificate of Deposit.

When an investment is made the treasurer shall issue a warrant payable to the financial institution from which the investment is purchased. The warrant must show the fund or funds on which it is drawn, if the investment is from a specific fund or funds, or if from "total monies on deposit." This wording should be entered in lieu of the fund name or names. The warrant should also show the purpose for which it is issued, such as "investment in certificate of deposit" or "investment in United States Governmental Securities." (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

INTEREST ON INVESTMENTS

Interest earned on some investments from the Wastewater Operating Fund was incorrectly receipted to the General Fund. The interest totaled \$5,672.61 and should be transferred from the General Fund to the Wastewater Operating Fund.

Some interest earned was not recorded in the fund records. Interest earned on two investments had not been recorded due to the nature of the investments. The investments have no stated maturity date and earn interest monthly. At December 31, 2006, the unrecorded interest earned for the Wastewater Operating investment was \$6,211.82. The Court investment had unrecorded interest of \$2,086.02.

TOWN OF EDGEWOOD
EXAMINATION RESULTS AND COMMENTS
(Continued)

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)

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OFFICIAL BONDS

The following official bonds were not filed in the Office of the County Recorder:

Town Marshal
Deputy Clerk-Treasurer
Town Judge
Utility Clerk
Court Clerk

Additionally, we noted that some bonds were issued for amounts of \$3,000 or less which did not meet the minimum bond coverage amount.

The insurance company issued continuation certificates in some instances which extended the length of coverage, but did not increase the amount of coverage. This diluted the coverage for these bonds.

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 5-4-1-18 states in part:

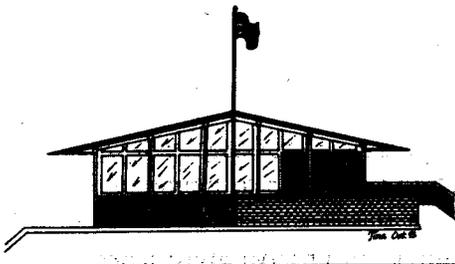
"(a) Except as provided in subsection (b), the following . . . town, . . . officers and employees shall file an individual surety bond: . . . (2) Town judges, and clerk-treasurers. . . . (5) Those employees directed to file an individual bond by the fiscal body of a . . . town, . . .

(b) The fiscal body of a . . . town . . . may by ordinance authorize the purchase of a blanket bond or a crime insurance policy. . . to cover the faithful performance of all employees, commission members, and persons acting on behalf of the local government unit including those officers described in subsection (a).

(c) The fiscal bodies of the respective units shall fix the amount of the bond of . . . town clerk-treasurers, . . . as follows: (1) The amount must equal fifteen thousand dollars (\$15,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2). (2) The amount may not be less than fifteen thousand dollars (\$15,000) nor more than three hundred thousand dollars (\$300,000). . . . 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)."

TOWN OF EDGEWOOD
EXIT CONFERENCE

The contents of this report were discussed on October 18, 2007, with Katherine L. Tanner, Clerk-Treasurer; and Patricia Farran, President of the Town Council. The comment pertaining to the Police Department was also discussed on October 18, 2007, with Martin R. Stanley, Town Marshal. The official response has been made a part of this report and may be found on pages 13 through 16.



Town Of Edgewood

Katherine L. Tanner, Clerk-Treasurer

October 25, 2007

State Board of Accounts
Official Response
302 West Washington Street
Room E418
Indianapolis, Indiana 46204-2738

Re: Official Response for Audit Period January 1, 2004 – December 31, 2006

Dear State Board of Accounts:

On behalf of the Town of Edgewood – Office of the Clerk-Treasurer, I would like to make an official response in regards to the exit conference, which was held October 18, 2007.

Bank Reconciliation and Adjustment to Records

May of 2005 the Town of Edgewood began using the Bank Reconciliation Program through Keystone Software as opposed to manual reconciliation. There were some problems starting the first reconciliation. Posting of receipts were not done individually rather as a lump sum making monthly reconciliation very difficult. Through additional training on the software and especially on making the correct debit and credits in the program, reconciliation in 2007 has been much easier and no adjustments have been needed without the proper documentation.

Transaction Recording

The payroll reallocation error occurred simply due to an error in trying to correct a previous error in allocation. With the staff using separate postings, all future bank reconciliation's should be clean and enable the staff to locate any adjustment/errors in an extremely efficient manner.



Payment for Services not Related to Town Duties

Due to the severity of this incident, an independent investigation should have been held requesting that the additional payroll tax funds be paid back along with all the hours the Town Marshal spent working on classroom instruction for the Indiana Business College while being paid by the Town of Edgewood.

Investments

General Form 350 was not used due to many columns not needed on the form; therefore the same form was created removing various unnecessary columns allowing larger columns for reporting. To correct this issue, I added the missing columns and added "Prescribed by State Board of Accounts" and "General Form No. 350".

Interest on Investments

In order to obtain the best return on investment, the MBIA investments accumulate interest on a daily basis and act more like a savings account than a CD. Therefore, interest was not added to the Keystone Software System, but to the investment register on a monthly basis.

Official Bonds

There was previous discussion as to the filing of official bonds, not elected officials bonds. It was my understanding only elected officials needed their bonds filed. All bonds are now filed and an increase of the various bonds has been issued.

If you have any questions, or need assistance in this matter, please feel free to contact me at the number listed below.

Sincerely,



Katherine Tanner
Clerk-Treasurer

Memo

To: Indiana State Board of Accounts
From: Patty Farran, Town Council President, Edgewood
Date: October 23, 2007
Re: Officials Response to Exit Interview Audit 2007

At our Exit conference on 10/18/2007, I believe that we covered the bank reconciliation transaction recording and investments fairly well. The monthly reports that will now be generated for the Council to view will assist in our ability to keep track of the "money path" that we were lacking.

I am glad to know we have no glaring discrepancies at this time! Hopefully, we can stay on guard from this point forward.

Regarding the issue of the Town Marshall's asking the secretary to help prepare his teaching materials: I believe that he did not knowingly or intentionally have her perform that function at work. The Council did meet in special session and decide on a written reprimand and reimbursement from the Marshall. He did acknowledge that he should not have asked his secretary to do that work for him, except she had the computer expertise which he lacked.

I do appreciate the diligence with which Liz scrutinized our records. Compliance with regulations is very important and I am sure that we are much closer now than we were before our audit.

Gratefully,



Patty Farran

President, Edgewood Town Council

TIMOTHY S. LANANE
Attorney at Law
34 WEST 8th STREET
ANDERSON, INDIANA 46016

(765) 644-4415
FAX (765) 644-4568

October 25, 2007

State Board of Accounts
302 West Washington Street
Room E 418
Indianapolis, IN 46204-2765

RE: OFFICIAL RESPONSE by Martin R. Stanley, Town Marshall, Town of Edgewood

Dear State Board of Accounts:

In response to your Examination Results and Comments regarding the Town of Edgewood for the period of 1/1/05 to 12/31/06, and as discussed with my client, Martin R. Stanley, in conference held October 18, 2007, Mr. Stanley would ask the following official response be made part of the report of the State Board of Accounts pertaining to the portion of the report designated "PAYMENT FOR SERVICES NOT RELATED TO TOWN DUTIES (Applies to Town Police Department)".

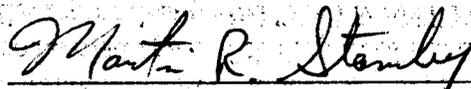
Mr. Stanley would request the report reflect that in regards to the alleged actions mentioned within the above cited portion of the report, he in no way intended to violate the provisions of IC 35-44-2-4 (b) or any other criminal statute of the State of Indiana, and that he was in no way aware that any of his actions as mentioned in the report were a violation of IC 35-44-2-4 (b) or any other criminal statute of the State of Indiana. Mr. Stanley also disputes that he violated any cited statutes. He also would state that no statement given by him in the course of the conference, nor anything contained within this response, is intended by him to be, nor should it be construed to be, an admission of any guilt or wrongdoing on his part.

Sincerely,



Timothy S. Lanane
Attorney at Law

Approved by:



Martin R. Stanley