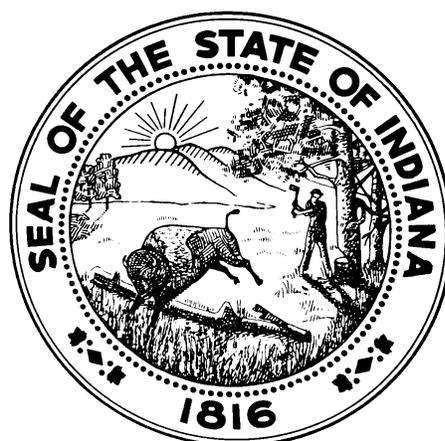


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

CONTROLLER
CITY OF ANDERSON
MADISON COUNTY, INDIANA

January 1, 2007 to December 31, 2007



FILED
09/18/2008

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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Morris D. Long	01-01-07 to 09-12-07
	Morris D. Long (Contractual)	09-13-07 to 12-31-07
	C. Karen Carpenter	01-01-08 to 12-31-08
Mayor	Honorable Kevin S. Smith	01-01-04 to 12-31-07
	Honorable M. Kris Ockomon	01-01-08 to 12-31-11
President of the Common Council	Donna Davis	01-01-07 to 12-31-07
	Joseph Newman	01-01-08 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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TO: THE OFFICIALS OF THE CITY OF ANDERSON, MADISON COUNTY, INDIANA

We have audited the records of the Controller for the period from January 1, 2007 to December 31, 2007, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments. The financial transactions of this office are reflected in the Comprehensive Annual Financial Report of the City of Anderson for the year 2007.

STATE BOARD OF ACCOUNTS

July 21, 2008

CONTROLLER
CITY OF ANDERSON
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were incorrect as presented for audit. We noted a difference of \$1,547.10, cash necessary to balance, at December 31, 2007. A similar comment appeared in the prior Report B30425 and two previous reports.

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)

We have requested the former Controller, Morris D. Long, to remit \$1,547.10 to the City of Anderson Controller for cash necessary to balance. (See Summary, page 12)

OFFICIAL BONDS

Morris D. Long, as Controller for the City of Anderson, obtained official bond No. 3-804-166 from the Ohio Casualty Insurance Company in the amount of \$300,000.00 for the following terms:

07-12-04 to 12-31-04;
12-31-04 to 12-31-05;
12-31-05 to 12-31-06;
12-31-06 to 12-31-07

Morris D. Long, as Controller of Barrett Law Fund, City of Anderson, obtained official bond No. 3-804-167 from the Ohio Casualty Insurance Company in the amount of \$15,000.00 for the following terms:

07-12-04 to 12-31-04;
12-31-04 to 12-31-05;
12-31-05 to 12-31-06;
12-31-06 to 12-31-07

ANNUAL REPORT ERRORS

While verifying the City's Annual Report to the records we noted the following:

- (1) The total amount of debt reported in Part 6, Long-Term Indebtedness, did not agree with the debt activity audited.
- (2) Capital asset additions, disposals and balances as reported in Part 10, Report of Capital Assets, contained errors.

CONTROLLER
CITY OF ANDERSON
AUDIT 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)

CAPITAL ASSET RECORDS

As similarly stated in the prior Report B30425, the following deficiencies were noted with the City's capital asset records:

Reporting of capital lease purchases was not accurate. The City did not include \$187,779 in capital asset lease purchases as of December 31, 2007. Additionally, there were two leases which the City had added to its capital asset records at the total of all lease payments, including interest, instead of recording them at the net present value of minimum lease payments as required by accounting principles generally accepted in the United States.

Accounting for construction in progress was inadequate. The City did not maintain an adequate detail of projects that comprise the balance of construction in progress. One entry was noted for the project's contractual amount in total, but also recorded one of the individual contract payments which resulted in double accounting. Additionally, the City did not always classify project payments accurately. In many instances, we noted payments not being classified as construction in progress but rather to depreciable classifications, such as infrastructure, buildings, or improvements other than buildings. This understated construction in progress and caused depreciation to be taken prematurely, which incorrectly reduced the net value of capital assets. Also, the transfer of completed projects was not adequately documented. In some cases, the unit reclassified the asset without providing supporting documentation for the entry. Due to the errors noted above, detail and control of construction in progress was difficult to verify.

Capital assets are not always properly depreciated. Some assets have fulfilled or exceeded their useful lives, but are not fully depreciated; whereas other assets have been fully depreciated, but have not fulfilled their useful lives. In some cases, assets have been over-depreciated. Additionally, information presented for depreciation expense was not completely accurate. Some assets that were fully depreciated still showed "annual" depreciation expense for 2007, but depreciation expense was not taken for the year. Several adjustments were necessary to the City's depreciation expense for reporting.

Additionally, while testing capital asset additions for 2007, we noted that \$2,747,717 in capital improvements were capitalized to both the City and Electric Utility capital asset records. The amount capitalized is for Electric Utility infrastructure additions.

Failure to adequately maintain capital asset records in accordance with applicable compliance guidelines could result in a qualified audit opinion.

A similar comment appeared in prior Report B30425 and two previous reports.

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)

CONTROLLER
CITY OF ANDERSON
AUDIT RESULTS AND COMMENTS
(Continued)

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals, and other publications. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

As similarly stated in the prior Report B30425, financial records presented for audit were incomplete and did not include all activity of the ARC (Anderson Redevelopment Commission) Lease Rental Fund. A separate ledger was maintained by the Controller's office to account for some activity related to donated General Motors properties.

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)

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)

DELINQUENT UTILITY ACCOUNTS

Some business customers providing community services were given special consideration when applying delinquent account procedures. Collection of amounts due is not being pursued for these specific customers. This resulted in delinquent wastewater and storm water fees and penalties for these customers not being recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

CONTROLLER
CITY OF ANDERSON
AUDIT RESULTS AND COMMENTS
(Continued)

- (1) a list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) the name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;
 - (B) a description of the premises, as shown by the records of the county auditor; and
 - (C) the amount of the delinquent fees, together with the penalty; or
- (2) an individual instrument for each lot or parcel of real property on which the fees are delinquent."

"(c) The officer shall record a copy of each list or each individual instrument with the county recorder. . . ."

"(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

SUPPORTING DOCUMENTATION – CREDIT CARD PURCHASES

Several credit card payments were observed which were not supported by adequate documentation, such as receipts, invoices, itemization, and other public records. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, 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)

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.

CONTROLLER
CITY OF ANDERSON
AUDIT RESULTS AND COMMENTS
(Continued)

- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CELLULAR TELEPHONES

We noted that certain employees have been provided with cellular telephones for use during normal work hours. According to officials, the City has approximately 111 cell phones and/or related devices in use by employees. These employees have access to the cellular telephones outside of normal work hours. The City pays 100% of all bills. A log denoting personal versus City business use was not presented for audit. The City does not have a policy governing the use of cellular telephones or related devices.

We also noted that the City paid 100% of the personal cellular telephone bills of former Controller, Morris D. Long, including all additional charges and late fees. During his tenure as Controller, there was no agreement with the City regarding reimbursement for business use of the telephone. A log denoting personal versus City business use was not presented for audit.

Additionally, during October 2007, the Controller resigned to seek employment outside of City government. He signed an agreement with the City to continue to perform the duties of Controller on a contractual basis. The signed agreement states that the City would "pay for all business related calls." The City instead paid 100% of the monthly cellular telephone bills. A log denoting personal versus City business was not presented for audit.

Assets of the governmental unit may not be used in a manner unrelated to the functions and purposes of the governmental unit.

Whenever an item or other asset owned by the political subdivision is entrusted to an officer or employee, to be used at times outside the normal work time for business purposes, such as a cellular phone, or vehicle, a log should be maintained which clearly shows the business use. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses 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)

CONTROLLER
CITY OF ANDERSON
EXIT CONFERENCE

The contents of this report were discussed on July 21, 2008, with Morris D. Long, former Controller; and Honorable Kevin S. Smith, former Mayor. The official response has been made a part of this report and may be found on pages 10 and 11.

The contents of this report were discussed on July 28, 2008, with C. Karen Carpenter, Controller; and Joseph Newman, President of the Common Council.

403 W. 8TH STREET, SUITE 3
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(765) 649-1144
FAX (765) 649-1155

LOCKWOOD, WILLIAMS & HAPPE

ASSOCIATES IN THE PRACTICE OF LAW
(NOT A PARTNERSHIP)

JEFFREY A. LOCKWOOD, P.C.
BRYAN R. WILLIAMS
DAVID A. HAPPE

July 31, 2008

State Board of Accounts
302 W. Washington Street, Room E418
Indianapolis, IN 46204-2765

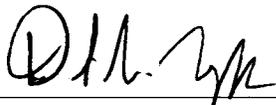
RE: Official Response to Audit Result and Comment for the
City of Anderson, 2007

Dear Sir/Madam:

Enclosed please find the official response of Controller Morris Long to the City of Anderson's 2007 audit report. Please let Mr. Long or I know if there are any questions about this response.

Sincerely,

LOCKWOOD WILLIAMS & HAPPE

By: 
David A. Happe

DAH/td
Enclosure

July 31, 2008

State Board of Accounts
302 West Washington St., Room E418
Indianapolis, IN 46204-2765

RE: OFFICIAL RESPONSE to audit result and comment for the City of Anderson,
2007

To Whom It May Concern:

At the exit conference held on July 21, 2008, I was informed of a discrepancy of \$1,547.10 between the City's fund balances and bank account balances. No details were provided to me of how this figure was calculated, or where the discrepancy lay. I orally requested a copy of supporting documentation, which I have not yet received. I again request that the City and/or the State Board of Accounts make this information available for my review.

I take full responsibility for the work I performed for the City of Anderson. I am more than willing to resolve any outstanding issues regarding the noted discrepancy. If I inadvertently made any error which caused this discrepancy, I will take financial responsibility for it and pay the discrepancy to the City. Before I can determine what action needs to be taken, I need an opportunity to review the supporting documentation. As an audit body, I know the Board can understand my need to see the information first-hand before reaching any final decision

Finally, the audit report also referenced payment for my cell phone expenditures. My cell phone expenditures were treated the same as cell phone usage by other City employees. I was provided a phone for both business and personal use, for which the City paid in its entirety. The intent of the written contract between myself and the City was to continue this practice after I began serving under contract beginning October 2007. I am unaware of any additional charges incurred by the City as a result of my personal use of the cell phone from October forward.

I look forward to receiving the additional verification requested, and thereafter resolving any remaining issues.

Sincerely,

Morris Long by DAH
Morris Long

CONTROLLER
CITY OF ANDERSON
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Morris D. Long, former Controller: Bank Account Reconciliations, page 4	<u>\$ 1,547.10</u>	<u>\$ -</u>	<u>\$ 1,547.10</u>

AFFIDAVIT

STATE OF INDIANA)
)
MADISON COUNTY)

We, Douglas Whitham and April Boone, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the Controller, City of Anderson, Madison County, Indiana, for the period from January 1, 2007 to December 31, 2007, is true and correct to the best of our knowledge and belief.

DG Whitham
April Boone
Field Examiners

Subscribed and sworn to before me this 20th day of August, 2008.

Sherry L Moore
Notary Public

My Commission Expires: March 25, 2010

County of Residence: Madison

SHERRY L. MOORE
NOTARY PUBLIC, STATE OF INDIANA
COUNTY OF MADISON
MY COMMISSION EXPIRES: MARCH 25, 2010