

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

EXAMINATION REPORT
OF
CITY OF JONESBORO
GRANT COUNTY, INDIANA
January 1, 2007 to December 31, 2007



FILED
12/01/2008

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Financial Information:	
Schedule of Receipts, Disbursements, and Cash and Investment Balances	4
Notes to Financial Information	5-6
Supplementary Information:	
Schedule of Capital Assets.....	7
Schedule of Long-Term Debt	8
Examination Results and Comments:	
Financial Report Opinion Modification.....	9
Condition of Records	9-10
Bank Account Reconciliations	10
Fund Sources and Uses	10
Payroll Fund.....	10
Appropriations.....	11
Motor Vehicle Highway.....	11
Advance Payments.....	11
Conflict of Interest.....	12
Customer Deposit Register	12-13
Wastewater Billing Error	13
Incorrect Accounts Receivable Balances	13
Bad Debts and Uncollectible Accounts	13-14
Delinquent Wastewater Accounts.....	14
Exit Conference.....	15
Official Response	16-20

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Karen Owen	11-26-06 to 12-31-11
Mayor	Terry Poling Jay Akers	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Public Board of Works	Terry Poling Jay Akers	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Common Council	Quinten Shipley David Jernigan	01-01-07 to 12-31-07 01-01-08 to 12-31-08
Superintendent of Utilities	Robert McNutt Carl Horn (Interim) Tom Gosser	01-01-07 to 12-12-07 12-13-07 to 12-31-07 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

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 JONESBORO, GRANT COUNTY, INDIANA

We were engaged to examine the financial information presented herein of the City of Jonesboro (City), for the period of January 1, 2007 to December 31, 2007. The City's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Due to inaccurate and incomplete accounting records, we were unable to obtain sufficient, competent, evidential matter to support the receipts, disbursements, and cash and investment balances for the year 2007.

Since the City did not maintain accurate and complete records and we were not able to apply other examination procedures to satisfy ourselves as to the accuracy of receipts, disbursements, and cash and investment balances, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial information presented herein.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

October 7, 2008

CITY OF JONESBORO
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2007

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds:				
General	\$ 103,780	\$ 379,907	\$ 482,171	\$ 1,516
Motor Vehicle Highway	51,574	115,971	78,262	89,283
Local Road and Street	15,492	19,044	25,593	8,943
Police and Fire Grant	2,201	-	-	2,201
Law Enforcement Continuing Education	2,800	3,486	6,904	(618)
Levy Excess	8,566	-	-	8,566
Donation	1,783	3,037	1,475	3,345
Cumulative Capital Improvement	5,803	9,745	14,158	1,390
Cumulative Capital Development	5,655	4,695	7,042	3,308
Proprietary Funds:				
Water Utility - Operating	19,734	430,006	449,308	432
Water Utility - Bond and Interest	70,850	123,634	79,845	114,639
Water Utility - Depreciation	2,795	15,781	13,852	4,724
Water Utility - Customer Deposit	47,294	11,185	5,967	52,512
Water Utility - Meter Loan	1,059	3,543	-	4,602
Water Utility - Reserve	79,852	22,155	10,650	91,357
Wastewater Utility - Operating	62,416	521,913	563,800	20,529
Wastewater Utility - Backhoe Lease	-	8,138	-	8,138
Wastewater Utility - Bond and Interest	89,217	61,647	97,679	53,185
Wastewater Utility - Depreciation	12,975	12,000	-	24,975
Wastewater Utility - Construction	151,868	28,613	115,960	64,521
Wastewater Utility - Reserve	5,200	19,903	-	25,103
Fiduciary Fund:				
Payroll	(151)	300,870	337,954	(37,235)
Totals	<u>\$ 740,763</u>	<u>\$ 2,095,273</u>	<u>\$ 2,290,620</u>	<u>\$ 545,416</u>

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

CITY OF JONESBORO
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety, health and social services, culture and recreation, water, wastewater, and general administrative services.

Note 2. Fund Accounting

The City 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 City 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 City 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.

State statute (IC 5-13-9) authorizes the City 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.

CITY OF JONESBORO
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City 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.

CITY OF JONESBORO
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
December 31, 2007

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 will be reported as completed. Retroactive reporting of general infrastructure assets is not required.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 33,013
Buildings	324,435
Improvements other than buildings	16,552
Machinery and equipment	<u>447,067</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 821,067</u>
 Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 12,000
Buildings	5,000
Improvements other than buildings	1,990,676
Machinery and equipment	<u>191,696</u>
 Total Water Utility capital assets	 <u>2,199,372</u>
 Wastewater Utility:	
Capital assets, not being depreciated:	
Land	32,000
Construction in progress	322,988
Buildings	5,000
Improvements other than buildings	3,453,695
Machinery and equipment	<u>115,080</u>
 Total Wastewater Utility capital assets	 <u>3,928,763</u>
 Total business-type activities capital assets	 <u>\$ 6,128,135</u>

CITY OF JONESBORO
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2007

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital leases:		
Police car	\$ 6,069	\$ 6,512
Backhoe	<u>17,330</u>	<u>6,088</u>
Total governmental activities debt	<u>\$ 23,399</u>	<u>\$ 12,600</u>
Business-type Activities:		
Water Utility		
Capital leases:		
Backhoe	\$ 5,339	\$ -
Loans payable	<u>2,514,541</u>	<u>141,303</u>
Total Water Utility	<u>2,519,880</u>	<u>141,303</u>
Wastewater Utility		
Capital leases:		
Backhoe	17,330	6,088
Note payable	425,000	450,942
Revenue bonds:		
Refunding bonds of 1995	364,365	9,703
Construction bonds of 2004	<u>149,059</u>	<u>2,123</u>
Total Wastewater Utility	<u>955,754</u>	<u>468,856</u>
Total business-type activities debt	<u>\$ 3,475,634</u>	<u>\$ 610,159</u>

CITY OF JONESBORO
EXAMINATION RESULTS AND COMMENTS

FINANCIAL REPORT OPINION MODIFICATION

The financial records did not provide sufficient information to examine or establish beginning balances, receipts, disbursements, ending balances, or the accuracy or correctness of the transactions. Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Accountant's Report for the financial statements.

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)

CONDITION OF RECORDS

The financial records presented for examination were incomplete and not reflective of the financial activity. The following problems were noted in the financial records:

1. Numerous receipts and disbursements were posted twice to the records. Correcting entries could not be found for all entries that had been posted twice.
2. Transfers were not properly posted. Some transfers were made by check and others were by ledger posting only. Some transfers were posted as negative receipts instead of disbursements. In at least one instance, a transfer was indicated as a transfer on the disbursement side and "hydrant rental" on the receipt side. The transfer was actually a transfer of cash from one bank account to another. Due to the inconsistent treatment and incorrect posting of transfers, not all transfers could be verified.
3. Transactions of the Water Bond and Interest Fund and Debt Service Reserve Fund (used to account for the State Revolving Fund Loans) were not properly posted. As of December 31, 2007, interest received in 2006 and 2007 had not been posted to the financial records; transfers made by check were not always receipted into the funds or were receipted into an incorrect fund; and some disbursements, made by the trust agent, for principal and interest were not posted to the financial records.
4. Error corrections were not properly posted to the financial records. Negative receipts and disbursements were posted in an attempt to correct transactions that were incorrectly classified or posted twice. Additionally, correcting entries were included in "balancing," "update," and "payroll correction" entries that were not supported by adequate documentation to determine the validity of these transactions.
5. Receipts and disbursements were back-dated. Several transactions were not posted in a timely manner and, when discovered, were posted and back-dated to the date of the original transactions. Also, "balancing" and "update" entries were back-dated to the last day of the month in order to balance the month.

Receipt and disbursement corrections or other errors should be corrected by memorandum entry with the issuance of a check and receipt to document the flow of the transactions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF JONESBORO
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)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances indicated that balances were reconciled. However, some transactions observed in the records were noted as "balancing" entries and were not supported by adequate documentation to support the validity of the transactions.

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."

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)

FUND SOURCES AND USES

Some receipts and disbursements were made to incorrect funds. A State distribution of \$1,701 designated for the General Fund was receipted to the Motor Vehicle Highway and a payment of \$1,030 for police medical insurance premiums was disbursed from the Wastewater Operating Fund.

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)

PAYROLL FUND

The cash balance of the Payroll Fund was overdrawn \$37,325 at December 31, 2007, which was the result of incorrect postings of payroll transactions. Both the employee and employer portions of FICA and Medicare payroll taxes for March through December and the total amount for medical insurance premiums for August through December were paid from payroll withholdings accounts. Only employee deductions were receipted into the payroll withholdings accounts. Based on the documentation presented, a total of \$17,996 is due to the payroll fund from the following: General Fund \$8,922; Motor Vehicle Highway Fund \$1,876; Water Operating Fund \$3,719; and Wastewater Operating Fund \$3,479. Additionally, an entry was posted as a disbursement to the "net" payroll withholding account in the amount of \$20,250 without adequate supporting documentation to determine the funds involved.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (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)

CITY OF JONESBORO
EXAMINATION RESULTS AND COMMENTS
(Continued)

APPROPRIATIONS

Records presented for examination indicated the following expenditures exceeded budgeted appropriations:

Fund	Excess Amount Expended
Motor Vehicle Highway	\$ 6,170
Local Road and Street	6,813
Cumulative Capital Improvement	2,558

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."

MOTOR VEHICLE HIGHWAY

Disbursements from the Motor Vehicle Highway Fund for law enforcement purposes were 28% of the Motor Vehicle Highway Fund's budget.

Indiana Code 8-14-1-5 states in part:

"(b) In addition to purposes for which funds may be expended under subsections (a) and (c) of this section, monies allocated to cities and towns under this chapter may be expended for law enforcement purposes, subject to the following limitations:

- (1) For cities and towns with a population of less than five thousand (5,000), no more than fifteen percent (15%) may be spent for law enforcement purposes."

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)

ADVANCE PAYMENTS

A Common Council member was issued an advance on his salary in the amount of \$250 on May 18, 2007, which was paid from the General Fund. The advance was repaid in two payments of \$83 and one payment of \$84 on July 5th, October 3rd, and December 6th of 2007, respectively. These payments were receipted into the Donations Fund.

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Payments or transfers which are not authorized by statute, ordinance, resolution or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF JONESBORO
EXAMINATION RESULTS AND COMMENTS
(Continued)

CONFLICT OF INTEREST

The City of Jonesboro contracted with Unleashed Technologies for two years of computer support services in the amount of \$3,600 per year. The City also paid Unleashed Technologies for other equipment and services totaling \$13,970 in 2007. James Windle is a partner in Unleashed Technologies and the spouse of Kim Windle who served as a Common Council member in 2007. A Uniform Conflict of Interest Disclosure Statement does not appear to have been filed.

Indiana Code 35-44-1-3 states in part:

"(a) A public servant who knowingly or intentionally: (1) has a pecuniary interest in; or (2) derives a profit from; a contract or purchase connected with an action by the governmental entity served by the public servant commits conflict of interest, a Class D felony. . . .

(c) This section does not prohibit a public servant from having a pecuniary interest in or deriving a profit from a contract or purchase connected with the governmental entity served . . . (3) if the public servant; (A) is an elected public servant. . . . and (B) makes a disclosure under subsection (d)(1) through (d)(6).

(d) A disclosure required by this section must: (1) be in writing; (2) describe the contract or purchase to be made by the governmental entity; (3) describe the pecuniary interest that the public servant has in the contract or purchase; (4) be affirmed under penalty of perjury; (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the governmental entity prior to final action on the contract or purchase; (6) be filed within fifteen (15) days after final action on the contract or purchase with: (A) the state board of accounts; and (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase. . . .

(g) A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of: (1) the public servant; or (2) a dependent of the public servant who: (A) is under the direct or indirect administrative control of the public servant; or (B) receives a contract or purchase order that is reviewed, approved, or directly or indirectly administered by the public servant. . . ."

(k) As used in this section, 'dependent' means any of the following: (1) The spouse of a public servant. (2) A child, stepchild, or adoptee (as defined in IC 31-9-2-2) of a public servant who is: (A) unemancipated; and (B) less than eighteen (18) years of age. (3) Any individual more than one-half (1/2) of whose support is provided during a year by the public servant."

CUSTOMER DEPOSIT REGISTER

Financial records presented for examination were not reflective of the activity of the Water Customer Deposit Fund. An adjusting entry of \$1,118 to increase the balance was posted to the Water Customer Deposit Fund to balance the funds ledger to the subsidiary ledger (customer deposit register). Adequate documentation was not presented to support the accuracy or correctness of the transaction.

CITY OF JONESBORO
EXAMINATION RESULTS AND COMMENTS
(Continued)

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)

WASTEWATER BILLING ERROR

A commercial customer was incorrectly billed for wastewater services in May of 2007. An error inputting the wastewater pump reading resulted in an over billing in the amount of \$8,106. The wastewater utility intends to issue the customer a refund or credit their account.

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)

Persons, companies or governmental units that have overpaid amounts to a governmental unit are entitled to a repayment or refund by check or warrant. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INCORRECT ACCOUNTS RECEIVABLE BALANCES

Accounts receivable at December 31, 2007, totaled \$175,723 which included accounts that were not receivables. On several occasions in 2007 the billing clerk could not correct problems in the computerized customer accounts, so new accounts were created. However, the incorrect accounts were not removed and are still included in the balances. The total amount of incorrect account balances included in accounts receivable could not be determined.

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)

BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

The Utilities' accounts receivables continue to increase each year. Accounts receivable over 90 days has increased to 52% of total accounts receivable at December 31, 2007. Documentation presented indicated the utilities are not properly pursuing the collection of delinquent accounts. The utilities currently do not have formal procedures for the collection of delinquent accounts.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances.

Documentation should exist for all efforts made by the governmental unit to collect amounts owed prior to any write-offs.

CITY OF JONESBORO
EXAMINATION RESULTS AND COMMENTS
(Continued)

Officials or employees authorizing, directing or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties for delinquent accounts had not been properly recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

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:

- (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. . . ."

CITY OF JONESBORO
EXIT CONFERENCE

The contents of this report were discussed on October 7, 2008, with Karen Owen, Clerk-Treasurer; Jay Akers, Mayor; and David Jernigan, President of the Common Council. The official response has been made a part of this report and may be found on pages 16 through 20.

The contents of this report were discussed on October 7, 2008, with Terry Poling, former Mayor and current Common Council member.

Financial Report Opinion Modification Statements from Jonesboro Officials

Condition of records: Reaction from Karen Owen, Clerk-Treasurer

1. As a brand new clerk last year, I had a lot of background for my clerk's position, but no accounting experience. Accountants were hired to help me at great expense to the city. Many correcting entries were made in an effort to correct obvious errors and to perform bank reconciliations and I was led to believe, as all bank statements have been reconciled to this date, that all entries are in my records.
2. Many transfers were made at the request of one of our former clerks and my mentor, who explained that the only way to correct my errors was to "back it out of the fund." Regarding the hydrant rental, it is one of the monthly transfers that I routinely make and is listed as a monthly expense from its own appropriation and was done in a timely manner in 2007. A check was written from the general fund to the water utility each month. If there was any problem with it, I may have miss-marked it in its receipt description. I truly did not understand what I was doing at first last year, and have made much progress now.
3. Regarding the state revolving loans, I did not have any idea how to post entries or what should be posted; they are listed as "other cash disbursements" in the income portion of the Bank of New York's summary of cash transactions. I merely opened the account statements and put them in order in a book I prepared for them. Former clerk Charlie Holbrook explained them to me and helped me post them in the spring of 2008.
4. Again, Mr. Holbrook helped me fix my errors by creating negative receipts to move the items to the right place in our budget when I had put them in the wrong place. If I misidentified the correct entries, it was because I did not know how to characterize them. There is a very limited description space in which to explain what happened; I typed a simple explanation in the description space and went to great length on the vouchers or receipts to explain what had happened. I thought those explanations would be enough for our auditor to understand what I had tried to do.
5. Besides my significant numbers of "learning errors," we had trouble with my computer, which was not discovered until December, 2007. It was discovered by our contracted computer tech while installing our server that my computer itself was completely corroded inside, so he installed a new "motherboard." I don't know what that is, but he explained that it might have caused some of the missing information in my budget program, as items every month would be in the bank but not in my "book." Those items had to be listed again over and over during the year and I dated them either as their original date should have been or at the end of the month, so I would know how to find them again. I did not know that that would be an accounting error. Actually, I did

not even know that there was an accounting manual in this office until the State Board of Accounts offered a seminar in February, 2008. At that time, it was required to bring "our accounting manuals." I asked former Clerk Holbrook and he even said he didn't have any idea what the state board was talking about. I eventually did find a 2003 version of the manual and called the State Board of Accounts after the meeting to request an updated one, which I was provided with immediately. An additional thought here; I would have been tremendously helped with my job if one of the State Board of Accounts representatives would have stopped in after my appointment to just explain some of the forms and apprise me of the use of the accounting manual. Our auditor was here and the time and did not offer that help. This year, I asked her why the SBA did not help new clerks and she said the SBA cannot help if it is the process of critiquing the unit. When she was here in 2006 and early 2007, her help would have been invaluable. As it was, I did not even know enough to ask her the questions that I needed answered.

Bank Account Reconciliations

And was this ever a learning experience! I can now reconcile the statements to find every penny! But the city hired a very expensive accountant for the end of 2006 and the first six months of 2007, who taught me several things but sat at my computer and basically did my work, with me trying to discover what she was doing by asking "What are you doing that for? She did not even try to teach me how to do the bank recs; she did them herself. So I finally told the mayor that I was not learning how to do the job, and he suggested the use of former Clerk Holbrook. The former clerk and my mentor worked and worked with the bank recs, finding all of my mistakes and showing me how to fix them. For the remainder of 2007 and six months of 2008, it has been nothing for us to spend Saturdays in my office once a month working on the bank recs for 8 a.m. to 8 p.m. I have finally caught on, especially because I am now not forced to find so many of my errors. One of my problems, for example, has been in understanding NSF checks. Our auditor suggested not doing anything with them in the budget, but keeping a list and checking with the billing clerk to find when they have been paid. I could not explain to our auditor how we arrived at our balances, because I did not even understand them at first and then did not keep good enough notes to explain them. The notes, as I explained earlier, are all hand-written explanations on the vouchers or receipts or pieces of paper. I also have not learned yet how to use the Excel program in my computer, which would have at least made our entries easier to read or to mark, instead of putting in such notes as "balancing entries." But to my knowledge, we both worked to find every penny in our budget and balance it to the bank.

Fund Sources and Uses

State distribution figures have been hard for me to understand. Example: Last month, the state sent us three amounts of money which were labeled Motor Vehicle Highway, Accelerated Motor Vehicle Highway I, and Motor Vehicle Highway II. I have four revenue numbers for entries for MVH funds- MVH liquor excise, liquor gallonage, MVH gasoline- fuel tax and MVH misc. revenue. Since the September entries had

nothing to do in an obvious sense with liquor, I put them in MVH miscellaneous. Our auditor said that that is wrong and none of it should go in the miscellaneous fund. She said that there are accompanying numbers on the EFT, but she could not decipher them either. I can't find them in the accounting manual. So I moved them to MVH gasoline-fuel tax, where they remain. I also asked our district Department of Local Government Finance supervisor, Jayne Schoeff, during my budget interview this past summer and she said "It doesn't matter; it all is receipted into MVH." So I still don't know how to decipher the numbers or who to call to find out.

Regarding the insurance premiums, all police insurance is paid through the general fund; two of our utility employees have cancer insurance paid through water and wastewater insurance funds. I am not sure how I confused this policy, if I did. I may have been paying all of the monthly insurance premiums at the same time and confused the appropriation numbers. That should not happen again.

Payroll Fund

The payroll fund was in the negative at about \$20,000 when I came into office. It was always in the negative while I was being trained, so I thought nothing of it until I heard Charlie Pride say in February, 2008, during an SBA seminar that "Theoretically, the payroll fund should come back to 0 after a payroll." I was shocked. I asked former Clerk Holbrook and he said "I saw that; we'll have to find out what is going on." So later in 2007 he did surmise my error; that I was not paying back the FICA, Medicare and insurance premiums back to the payroll fund. But we did not know how to fix it easily, and had no idea what had happened to the fund in 2006. Our auditor showed me how to fix it and how to find the figures to fix it this year, so I am working on that now.

Appropriations

I had no idea until September, 2008, that there is a cap on how much may be expended from MVH for police expenses when our auditor told me. And in 2007, when the mayor told me to take an expense out of a certain fund, I did not ask any questions. Again, I am just beginning to understand the information in the SBA Accounting Manual.

Advance Payments

The mayor called me into his office in May, 2007, and listened while one of the council members requested an advance payment on his council salary of \$250. The mayor said nothing, so I assumed that such a payment had been a past practice in the city. I said that I could do that, not realizing that I could not and thinking that the advance was what the mayor wanted me to do. I made a deal with the council member to take it out of his council salary in three payments, since the amount was more than his net wages for each of his quarterly checks. He died in September, so the rest of the money was paid back by his estate. I put it into the donations fund because the mayor said that checks from other sources could not be put into appropriated funds, as it would make more money in the appropriation than the budget allowed. So I put it into the donations fund.

Reaction from Billing Clerk Kim Windle

Conflict of Interest

I did sign a conflict of interest statement in regards to the hiring of Unleashed Technologies. Neither I, the mayor, nor the council, nor the Clerk-Treasurer was aware that such a statement needed to be filed with the State Board of Accounts or it would have been at that time. Also during my time as a council member, I always abstained from any vote regarding Unleashed Technologies, as is noted routinely in the council minutes.

Wastewater Billing Error

At the time this error was made, it was signed off by my supervisor, whom in my opinion should have had the final ok for the document. After discovering the error it was presented to the Jonesboro Board of Works and has since been rectified by issuing the customer a refund check per their request.

Incorrect Accounts Receivable Balances

With the accounts in question, most of them were just billing errors and needed to be written off. Some were due to timing, such as when a person moved from his property and was billed for usage that wasn't his. These accounts will be reviewed and taken care of as soon as possible.

Bad Debts and Uncollectible Accounts

The reason we have uncollectible accounts is because of lack of correct mailing addresses or owners' names. In some instances, a bank or mortgage company owns a property and just refuses to pay the debt. In these cases, the services are turned off and are accruing a minimum charge each month. Some of these debts are dead accounts, which need to be written off as uncollectible. The majority of these high balance debts will be taken care of or controlled by reporting them to the collections agency and by filing liens on the properties.

The fact that our accounts are 52% delinquent is because of the high balances of the twenty or so uncollectible accounts. There are a couple current customers who add to that percentage just due to extreme water leaks resulting in massive charges on their bill, in which they are making payment arrangements. This is what is causing that total percentage to be so high. The majority of our current customer accounts are accounted for every month and are correctly paid up to date. In some cases, payment arrangements are made, but the current bills are still paid in a timely manner.

Efforts will be made to rectify the bad debts/uncollectible accounts in our system. It is the goal of the billing department to get all customer accounts to a fully collectible and perfectly paid-up status as soon as possible.

Delinquent Wastewater Accounts

The main reason that liens have not been filed since March, 2007, is because it's a tedious job and the resignation of our part-time billing clerk, who did not need to be replaced. I have nearly 20 accounts that need to be researched, with letters sent to homeowners, and subsequently submitted to the county recorder's office for a lien to be filed. With the loss of the part-time billing clerk, the filing of the liens has had to be pushed back due to the time constraints of having one person run the office. I am fully aware that this needs to be taken care of as soon as possible and all efforts will be made to accomplish this by the end of the year.