

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

EXAMINATION REPORT

OF

TOWN OF WARREN

HUNTINGTON COUNTY, INDIANA

January 1, 2006 to December 31, 2007



FILED
12/04/2008

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OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|-------------------------------|--|--|
| Clerk-Treasurer | Marilyn J. Morrison | 01-01-04 to 12-31-11 |
| President of the Town Council | David C. Scheib William C. Cartwright | 01-01-06 to 12-31-06 01-01-07 to 12-31-08 |
| Superintendent of Utilities | Curtis L. Day | 01-01-06 to 12-31-08 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF WARREN, HUNTINGTON COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Warren (Town), for the period of January 1, 2006 to December 31, 2007. 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, 2006 and 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Long-Term Debt, as listed in the Table of Contents, 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 29, 2008

TOWN OF WARREN
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, 2006

| | Cash and Investments 01-01-06 | Receipts | Disbursements | Cash and Investments 12-31-06 |
|--|-------------------------------------|---------------------|---------------------|-------------------------------------|
| Governmental Funds: | | | | |
| General | \$ 442,729 | \$ 287,753 | \$ 303,166 | \$ 427,316 |
| Motor Vehicle Highway | 458,202 | 154,022 | 128,002 | 484,222 |
| Local Road and Street | 77,715 | 7,281 | - | 84,996 |
| Rainy Day | 40,058 | - | - | 40,058 |
| Law Enforcement Continuing Education | 3,176 | 360 | 1,557 | 1,979 |
| TIF Allocation | 199,317 | 82,222 | 142,577 | 138,962 |
| Sanitation | 10,295 | 39,374 | 40,140 | 9,529 |
| Cumulative Capital Improvement | 24,099 | 4,544 | - | 28,643 |
| Cumulative Capital Development | 139,607 | 14,816 | 21,250 | 133,173 |
| Cumulative Fire | 38,909 | 9,878 | - | 48,787 |
| Economic Development Income Tax | 74,696 | 51,176 | 42,000 | 83,872 |
| Proprietary Funds: | | | | |
| Water Utility - Operating | 78,516 | 262,928 | 284,120 | 57,324 |
| Water Utility - Bond and Interest | 15,753 | 25,200 | 24,965 | 15,988 |
| Water Utility - Depreciation | 131,329 | 25,326 | - | 156,655 |
| Water Utility - Customer Deposits | 24,250 | 4,750 | 3,925 | 25,075 |
| Water Utility - Building Corporation | 9,958 | 18,587 | 21,250 | 7,295 |
| Water Utility - Cash Reserve | 100,000 | - | - | 100,000 |
| Water Utility - Debt Service Reserve | 26,625 | - | - | 26,625 |
| Water Utility - I-69 Construction | - | 142,576 | 142,576 | - |
| Wastewater Utility - Operating | 251,943 | 158,343 | 234,618 | 175,668 |
| Wastewater Utility - Bond and Interest | 192,818 | 190,356 | 183,132 | 200,042 |
| Wastewater Utility - Depreciation | 12,277 | 15,701 | - | 27,978 |
| Wastewater Utility - Customer Deposits | 5,050 | 5,030 | 2,195 | 7,885 |
| Wastewater Utility - Revenue | - | 368,016 | 368,016 | - |
| Wastewater Utility - Debt Service Reserve 2002 | 47,280 | 14,400 | - | 61,680 |
| Wastewater Utility - Debt Service Reserve 1995 | 37,500 | - | - | 37,500 |
| Electric Utility - Operating | 186,601 | 1,274,798 | 1,284,642 | 176,757 |
| Electric Utility - Depreciation | 384,671 | 28,594 | 80,709 | 332,556 |
| Electric Utility - Customer Deposits | 36,884 | 6,750 | 5,145 | 38,489 |
| Electric Utility - Cash Reserve | 358,606 | 172,577 | 100,000 | 431,183 |
| Electric Utility - Rate Stabilization | 119,511 | 29,460 | - | 148,971 |
| Fiduciary Funds: | | | | |
| Payroll | 1,624 | 517,312 | 517,368 | 1,568 |
| Fire Department Donation | 2,090 | 4,703 | - | 6,793 |
| Totals | <u>\$ 3,532,089</u> | <u>\$ 3,916,833</u> | <u>\$ 3,931,353</u> | <u>\$ 3,517,569</u> |

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

TOWN OF WARREN
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 | \$ 427,316 | \$ 322,418 | \$ 285,737 | \$ 463,997 |
| Motor Vehicle Highway | 484,222 | 154,483 | 132,813 | 505,892 |
| Local Road and Street | 84,996 | 7,341 | - | 92,337 |
| Rainy Day | 40,058 | - | - | 40,058 |
| Law Enforcement Continuing Education | 1,979 | 2,031 | 1,103 | 2,907 |
| TIF Allocation | 138,962 | 78,940 | 58,962 | 158,940 |
| Sanitation | 9,529 | 36,256 | 38,132 | 7,653 |
| Cumulative Capital Improvement | 28,643 | 4,468 | - | 33,111 |
| Cumulative Capital Development | 133,173 | 14,037 | - | 147,210 |
| Cumulative Fire | 48,787 | 9,371 | - | 58,158 |
| Economic Development Income Tax | 83,872 | 51,294 | 42,000 | 93,166 |
| Proprietary Funds: | | | | |
| Water Utility - Operating | 57,324 | 444,338 | 278,092 | 223,570 |
| Water Utility - Bond and Interest | 15,988 | 24,000 | 24,095 | 15,893 |
| Water Utility - Depreciation | 156,655 | 26,123 | 157,209 | 25,569 |
| Water Utility - Customer Deposits | 25,075 | 5,950 | 3,875 | 27,150 |
| Water Utility - Building Corporation | 7,295 | 21,504 | 21,750 | 7,049 |
| Water Utility - Cash Reserve | 100,000 | - | - | 100,000 |
| Water Utility - Debt Service Reserve | 26,625 | - | - | 26,625 |
| Wastewater Utility - Operating | 175,668 | 316,685 | 260,703 | 231,650 |
| Wastewater Utility - Bond and Interest | 200,042 | 133,896 | 221,228 | 112,710 |
| Wastewater Utility - Depreciation | 27,978 | 74,725 | 14,139 | 88,564 |
| Wastewater Utility - Customer Deposits | 7,885 | 6,435 | 3,005 | 11,315 |
| Wastewater Utility - Revenue | - | 378,110 | 377,788 | 322 |
| Wastewater Utility - Debt Service Reserve 2002 | 61,680 | 13,200 | - | 74,880 |
| Wastewater Utility - Debt Service Reserve 1995 | 37,500 | - | 37,500 | - |
| Electric Utility - Operating | 176,757 | 1,454,949 | 1,408,062 | 223,644 |
| Electric Utility - Depreciation | 332,556 | 26,744 | 114,673 | 244,627 |
| Electric Utility - Customer Deposits | 38,489 | 7,050 | 4,945 | 40,594 |
| Electric Utility - Cash Reserve | 431,183 | 30,000 | 10,000 | 451,183 |
| Electric Utility - Rate Stabilization | 148,971 | - | 75,000 | 73,971 |
| Fiduciary Funds: | | | | |
| Payroll | 1,568 | 545,962 | 545,406 | 2,124 |
| Fire Department Donation | 6,793 | - | - | 6,793 |
| Arts Festival Donation | - | 4,258 | 2,849 | 1,409 |
| Totals | <u>\$ 3,517,569</u> | <u>\$ 4,194,568</u> | <u>\$ 4,119,066</u> | <u>\$ 3,593,071</u> |

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

TOWN OF WARREN
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, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater and electric.

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.

State statute (IC 5-13-9) authorizes the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

TOWN OF WARREN
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2007

The Town has entered into the following debt:

| Description of Debt | Ending Principal Balance | Principal and Interest Due Within One Year |
|---|--------------------------------|---|
| Governmental Activities: | | |
| Capital lease: | | |
| Warren Building Corporation | \$ 225,632 | \$ 42,000 |
| Business-type Activities: | | |
| Water Utility | | |
| Capital lease: | | |
| Warren Building Corporation | \$ 108,639 | \$ 19,500 |
| Revenue bonds: | | |
| 1994 Waterworks revenue bonds | 130,000 | 23,210 |
| Total Water Utility | 238,639 | 42,710 |
| Wastewater Utility | | |
| Revenue bonds: | | |
| 2002 Sewage works revenue bonds | 2,594,000 | 148,370 |
| Total business-type activities long-term debt | \$ 2,832,639 | \$ 191,080 |

TOWN OF WARREN
EXAMINATION RESULTS AND COMMENTS

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties have not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property. A similar comment appeared in prior Report B28500.

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.
 - (C) the amount of the delinquent fees, together with the penalty.
- (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. . . ."

COLLECTION OF AMOUNTS DUE

On October 9, 2006, the Town entered into a contract with Crazy D's Warren Inc., for a Water Utility connection. The principal amount of the contract (\$68,396) was to be paid with a \$17,000 down payment and \$1,191 per month commencing November 1, 2006, until paid in full. The down payment and monthly payments were made through November 8, 2007. Subsequent to that date, ownership of Crazy D's Warren Inc., changed. No payments have been made after the change in ownership.

A comparison of total gallons pumped (net of unmetered usage) versus total gallons billed indicated a difference of approximately 13.7 million gallons (25% of total gallons pumped) in 2006 and 14.7 million gallons (27% of total gallons pumped) in 2007. Water that is pumped but not billed represents a loss of income to the utility and should be investigated.

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)

TOWN OF WARREN
EXAMINATION RESULTS AND COMMENTS
(Continued)

CAPITAL ASSETS LEDGER

The Town does not maintain sufficient detailed records of capital assets for the Town or its Utilities' Plant in Service accounts. Upon purchase, the costs of the capital assets are recorded on a tablet. However, this information is not transferred to the prescribed City and Town Form 211 "Capital Assets Ledger". Deletions or disposals of capital assets are not recorded. The report on capital assets was not included in the 2006 or 2007 "Annual City and Town Financial Report."

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)

PENALTIES, INTEREST AND OTHER CHARGES

Penalties and interest on state and county withholding tax totaling \$129 were paid to the Indiana Department of Revenue on August 16, 2006, for the period ended April 30, 2006. Penalties and interest on state sales tax totaling \$43 were paid to the Indiana Department of Revenue on November 3, 2006, for the period ended July 31, 2006.

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)

CREDIT CARDS

A review of purchases using the Town's credit card revealed the following deficiencies:

- (1) Nine separate meal purchases where no itemized bill was attached to the credit card slip;
- (2) Two purchases from internet vendors where no itemized bill was printed;
- (3) A finance charge of \$3 and an over limit charge of \$39 was paid;
- (4) The purpose of out of town travel and lodging was not always evident; and
- (5) Not all credit card statements were available for review.

TOWN OF WARREN
EXAMINATION RESULTS AND COMMENTS
(Continued)

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.
- (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)

PERSONAL EXPENSES

Marilyn J. Morrison, Clerk-Treasurer, used the Town's credit card on December 27, 2005, to cash advance herself \$257. The Clerk-Treasurer paid \$272 (including \$10 transaction fee and \$5 finance charge) from her personal funds to the credit card company on February 12, 2006.

Section B.7 of the Town of Warren Ordinance 2006-3 states:

"No credit card issued by the Town for any elected officer or employee shall be used for private purchase."

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 entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF WARREN
EXAMINATION RESULTS AND COMMENTS
(Continued)

CELLULAR TELEPHONES

The Town provides three cellular telephones for its employees. There is no written policy concerning the use of cellular phones. During July 2007, roaming charges of \$10 were incurred when the Clerk-Treasurer used one of these phones while in Toronto, Canada.

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)

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)

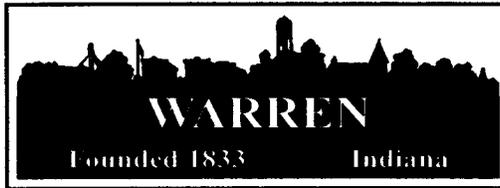
OFFICIAL BOND

The official bond for the Clerk-Treasurer was not payable to the State of Indiana.

Indiana Code 5-4-1-10 states in part: "All official bonds shall be payable to the state of Indiana; . . ."

TOWN OF WARREN
EXIT CONFERENCE

The contents of this report were discussed on October 29, 2008, with Marilyn J. Morrison, Clerk-Treasurer; and William C. Cartwright, President of the Town Council. The official response has been made a part of this report and may be found on page 13.



SMALL TOWN ♥ BIG HEART

October 29, 2008

Re: Response to Audit

Collection of Amounts Due

The Crazy D payment situation was discovered in 2008 and had been submitted to the Municipal Attorney.

Credit Card

“Purpose of Out of Town Lodging and Travel Not Evident”

While receipts may have been in place, copies of a conference or training flyer were not in the claims to establish why the charges had been made. It could be determined from the employee signing the receipts and from prior knowledge as to why the claims were made.

“Separate meal purchases”

Seven of the nine were traced to two employees at conferences. The other two were not researched by me or detailed to me by the auditor.

“Not all credit card statements available”

Repeated contacts were made with the Credit Card Company to replace the statements. I knew of two statement periods which were under review. The company was contacted more than once during the audit with the Company notifying that as there was no activity during the period, no statement could be generated. In addition, several copies of statements were faxed and mailed, none of which were for the period needed. We were notified by the auditors to keep copies of Credit Card Statements even if no activity had occurred and that change has been made in procedure.

“Personal Expenses”

This was an inadvertent purchase at National City Bank as the Town credit card and my personal debit card appeared the same (color). Immediately following the purchase of gift cards at the Bank and upon returning to the office and discovering the situation, I returned to the Bank with my debit card and was told a correction would be very difficult as it had been treated as a cash transaction. I would need to return all the gift cards which would have to be individually added back to the system with a separate credit card correction issued for each one. At that time I determined it would be easier to pay the Town Credit Card Company directly when the billing statement arrived. That payment, including the costs of cash advance fees, was issued by me directly to the Company so that no Town Funds would be used.

Town of Warren

Marilyn Morrison

Marilyn Morrison

Clerk-Treasurer

Town of Warren