

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

EXAMINATION REPORT
OF
TOWN OF SHIRLEY
HANCOCK AND HENRY COUNTIES, INDIANA
January 1, 2006 to December 31, 2007



FILED
12/23/2008

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Marla J. Kemerly	01-01-04 to 12-31-11
President of the Town Council	A. Kyle Austin	01-01-06 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF SHIRLEY, HANCOCK AND HENRY COUNTIES, INDIANA

We have examined the financial information presented herein of the Shirley (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. The schedule 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

November 7, 2008

TOWN OF SHIRLEY
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, 2006 And 2007

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 264,493	\$ 405,380	\$ 437,298	\$ 232,575
Motor Vehicle Highway	85,492	49,009	34,985	99,516
Local Road and Street	42,039	10,349	7,245	45,143
Law Enforcement Continuing Education	450	839	799	490
Riverboat	15,262	5,071	-	20,333
Rainy Day	15,469	-	-	15,469
Brownsfield Grant	-	17,642	17,642	-
CDBG Grant - Housing	-	292,043	292,043	-
Planning Grant	-	11,880	11,880	-
Cumulative Capital Improvement	-	2,880	2,880	-
Cumulative Capital Development	37,853	4,775	1,750	40,878
Levy Excess	4,462	-	-	4,462
Proprietary Funds:				
Water Utility - Operating	9,354	79,254	77,920	10,688
Water Utility - Depreciation	40,489	13,548	17,493	36,544
Water Utility - Customer Deposit	17,675	2,200	1,513	18,362
Water Utility - Debt Reserve	6,400	-	-	6,400
Wastewater Utility - Operating	87,253	198,950	198,567	87,636
Wastewater Utility - Bond and Interest	7,609	-	-	7,609
Wastewater Utility - Depreciation	57,039	7,387	5,457	58,969
Wastewater Utility - Debt Service Reserve	66,566	64,642	28,110	103,098
Wastewater Utility - Improvement - Lagoon Maintenance	110,604	7,648	-	118,252
Wastewater Utility - Improvement	44,288	-	-	44,288
Fiduciary Fund:				
Payroll	14,987	162,658	159,428	18,217
Totals	<u>\$ 927,784</u>	<u>\$ 1,336,155</u>	<u>\$ 1,295,010</u>	<u>\$ 968,929</u>

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds:				
General	\$ 232,575	\$ 438,674	\$ 418,599	\$ 252,650
Motor Vehicle Highway	99,516	49,135	17,221	131,430
Local Road and Street	45,143	10,643	-	55,786
Law Enforcement Continuing Education	490	1,549	842	1,197
Riverboat	20,333	5,083	-	25,416
Rainy Day	15,469	-	-	15,469
CDBG Grant - Housing	-	7,957	7,957	-
Community Matters Grant	-	2,400	2,400	-
Cumulative Capital Improvement	-	2,831	2,831	-
Cumulative Capital Development	40,878	4,835	12,000	33,713
Levy Excess	4,462	-	-	4,462
Proprietary Funds:				
Water Utility - Operating	10,688	80,125	79,874	10,939
Water Utility - Depreciation	36,544	13,549	12,350	37,743
Water Utility - Customer Deposit	18,362	1,870	879	19,353
Water Utility - Debt Reserve	6,400	-	-	6,400
Wastewater Utility - Operating	87,636	177,976	192,536	73,076
Wastewater Utility - Bond and Interest	7,609	-	-	7,609
Wastewater Utility - Depreciation	58,969	6,481	-	65,450
Wastewater Utility - Debt Service Reserve	103,098	65,916	27,585	141,429
Wastewater Utility - Improvement - Lagoon Maintenance	118,252	7,195	4,435	121,012
Wastewater Utility - Improvement	44,288	-	-	44,288
Fiduciary Fund:				
Payroll	18,217	169,466	173,379	14,304
Totals	<u>\$ 968,929</u>	<u>\$ 1,045,685</u>	<u>\$ 952,888</u>	<u>\$ 1,061,726</u>

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

TOWN OF SHIRLEY
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).

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 SHIRLEY
 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 leases:		
2007 Police Car	\$ 15,674	\$ 5,962
Total governmental activities debt	<u>\$ 15,674</u>	<u>\$ 5,962</u>
Business-type Activities:		
Wastewater Utility		
State Revolving Loan:		
Sewer Interceptor and Lift Station	\$ 250,659	\$ 20,008
Total business-type activities debt	<u>\$ 250,659</u>	<u>\$ 20,008</u>

TOWN OF SHIRLEY
EXAMINATION RESULTS AND COMMENTS

TIMELY RECORDKEEPING

Several payroll and fund ledger records were not completed on a timely basis. Similarly, some of the 2008 records were not completed at the time of the examination.

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

ANNUAL REPORT AND CERTIFIED REPORT OF NAMES, ADDRESSES, DUTIES, AND COMPENSATION OF PUBLIC EMPLOYEES

The City and Town Annual Financial Reports (CTAR-1) for 2006 and 2007 were not prepared prior to examination. The Certified Report of Names, Addresses, Duties and Compensation of Public Employees (General Form 100R) was not filed for 2006 and 2007.

Indiana Code 5-3-1-3(a) states in part:

"Within sixty (60) days after the expiration of each calendar year, the fiscal officer of each civil city and town in Indiana shall publish an annual report of the receipts and expenditures of the city or town . . ."

Indiana Code 5-11-13-1 states in part:

"Every state, county, city, town, township, or school official, elective or appointive, who is the head of or in charge of any office, department, board, or commission of the state or of any county, city, town, or township, and every state, county, city, town, or township employee. . . , shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents in their respective offices, departments, boards, commissions, and institutions, and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts. However, no more than one (1) report covering the same officers, employees, and agents need be made from the state or any county, city, town, township, or school unit in any one year."

BOARD MINUTES

Not all minutes of meetings of the governing body were available for examination.

Indiana Code 5-14-1.5-4 states in part:

"(b) As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.

TOWN OF SHIRLEY
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (4) A record of all votes taken, by individual members if there is a roll call.
- (5) Any additional information required under IC 5-1.5-2-2.5 or IC 20-12-63-7."

EMPLOYEE'S EARNINGS RECORD

The 2006 Employee's Earnings Records (General Form 99B) were not presented for examination. The 2007 Employee's Earnings Records did not include all employees and officials.

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 were not completed timely. Some errors were noted in the reconciliations. At the time of the examination, the Town and Payroll bank accounts had not been reconciled during 2008.

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."

WATER AND WASTEWATER CUSTOMER COLLECTION POLICY

We were unable to find a written policy concerning collection procedures for delinquent accounts receivable. Because there is no written policy, we were unable to determine if customers were being treated equitably. A similar comment appeared in prior Report B28044.

The governing board over a water, gas, or electric utility should adopt written policies dealing with unclaimed meter deposits, bad debts, due dates, write-offs, NSF checks, etc. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT ACCOUNTS RECEIVABLE

A few current utility customers have incurred large balances and continue to receive water and wastewater services. At the time of the examination, there were four customers with large balances. Three of these customers have entered into a payment agreement, but none of them are complying with the agreements. These customers are continuing to receive services. We noted that one councilman had accumulated an unpaid balance of \$273.50 at August 2008, which represents more than three months of services. The practice of shutting off customers for nonpayment has not been enforced consistently to all customers.

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)

TOWN OF SHIRLEY
EXAMINATION RESULTS AND COMMENTS
(Continued)

OFFICIAL BONDS

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

Clerk-Treasurer

Utility Clerk
Town Marshal
Deputy Town Marshal

Bonds have not been recorded since 2001. A new bond has been purchased for the Deputy Marshal, but it was not on file. All other officials and employees have not been issued new 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 5-4-1-8 states in part:

"(a) The official bonds of officers, if sufficient, shall be approved as follows: . . . (6) Of clerk-treasurer and marshal of a town, by the town legislative body.

(b) A person who approves an official bond shall write the approval on the bond.

(c) A bond must be approved before it is filed."

Indiana Code 5-4-1-9 states:

"An officer required to give an official bond shall give the bond before the commencement of his term of office. If the officer fails to give the bond before that time, the officer may not take office."

Based upon language contained in IC 5-4-1-9, it is our audit position that an official bond written to cover an elected city or town officer's term of office would satisfy the bonding requirements in IC 5-4-1-18. If such official is subsequently reelected, it is our audit position that a new bond be acquired in lieu of a continuation certificate. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2004)

MISREPORTING OF WITHHOLDINGS

Forms W-2 (Wage and Tax Statement) for 2007 contained erroneous reporting of tax withholdings for two employees. In each case the employee's withholdings were in excess of the amount reported. The remittance and reporting to state and federal agencies of the employee withholdings on monthly or quarterly basis reflected the actual withholdings. Errors noted amounted to \$520.66 for 2007.

The errors on the Forms W-2 extended to the 2007 Form W-3 (Transmittal of Wage and Tax Statements). The information on the Form W-3 was compared to actual payments of withholdings. The comparison indicated the Town had overpaid the withholdings, but the Town had not.

TOWN OF SHIRLEY
EXAMINATION RESULTS AND COMMENTS
(Continued)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PENALTIES, INTEREST, AND OTHER CHARGES

Penalties and interest totaling \$873.26 were paid to the Indiana Department of Revenue and Internal Revenue Service due to late payments in 2006 for the remittance of sales tax and income tax withholdings.

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)

GUARANTEE DEPOSIT REGISTER

The Guarantee Deposit Register (Form 314) was not in balance with the Utility Meter Deposit Fund's cash balance as of December 31, 2006 and 2007. Similar comments have appeared in several prior reports.

At all times, the manual and 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)

ERRORS ON ACCOUNTS PAYABLE VOUCHERS

The following deficiencies were noted on the accounts payable vouchers during the examination period:

1. Accounts payable vouchers were not presented for examination for all disbursements tested.
2. Not all accounts payable vouchers were approved by the Town Council or Clerk-Treasurer. The vouchers were not approved individually and were not listed on the Accounts Payable Voucher Register for a combined approval of claims.

TOWN OF SHIRLEY
EXAMINATION RESULTS AND COMMENTS
(Continued)

3. Not all accounts payable vouchers were accompanied by adequate supporting documentation. One payment was supported by a statement and did not have an invoice detailing purchases. Another voucher was a reimbursement supported by credit card receipts which showed only the total of the purchase and no detail of the items purchased.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

A similar comment appeared in prior Report B28044.

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)

CAPITAL ASSET RECORDS

As stated in prior Report B28044, the Town did not maintain capital asset records nor was an inventory of capital assets performed. The information presented for examination indicated the Utilities did not maintain sufficient detailed records of capital assets. Records providing historical costs for some of the Utilities' capital assets were not available, and records classifying and summarizing the Utilities' capital assets were incomplete. Deletions or disposals of capital assets were not recorded. A complete inventory of capital assets was not presented for examination.

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)

TOWN OF SHIRLEY
EXAMINATION RESULTS AND COMMENTS
(Continued)

INVESTMENT REGISTER

As stated in prior Report B28044, the Investment Register (General Form 350) was not maintained.

The Investment Register, General Form 350, shall be used for keeping a record or inventory of all investments purchased. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OLD OUTSTANDING CHECKS (WARRANTS)

Our review of the bank reconcilements as of December 31, 2007, indicated that some checks remained outstanding for more than two years.

Indiana Code 5-11-10.5-2 states in part:

"All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

Indiana Code 5-11-10.5-3 states in part:

"Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the board of finance of the political subdivision or the fiscal body of a city or town. The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

Indiana Code 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

TOWN OF SHIRLEY
EXIT CONFERENCE

The contents of this report were discussed on November 7, 2008, with Marla J. Kemerly, Clerk-Treasurer; and A. Kyle Austin, President of the Town Council.