

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

EXAMINATION REPORT

OF

TOWN OF WHITELAND

JOHNSON COUNTY, INDIANA

January 1, 2006 to December 31, 2007



FILED
01/15/2009

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Financial Information:	
Schedules of Receipts, Disbursements, and Cash and Investment Balances	4
Notes to Financial Information	5-6
Supplementary Information:	
Schedule of Long-Term Debt	7
Examination Results and Comments:	
Internal Controls - Receipts	8
Bank Account Reconciliations	8-9
Condition of Records	9-10
Penalties, Interest, and Other Charges	10
Internal Controls	10-11
Overdrawn Cash Balances.....	11
Appropriations.....	11
Delinquent Wastewater Accounts.....	12
Deposits.....	12
Posting Records at the Time Investments are Purchased or Sold.....	12-13
Capital Asset Records	13
Exit Conference.....	14

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Michelle R. Gabehart	01-01-06 to 12-31-11
President of the Town Council	Roger Ford	01-01-06 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 TOWN OF WHITELAND, JOHNSON COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Whiteland (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

December 22, 2008

TOWN OF WHITELAND
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL 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	\$ 50,327	\$ 579,854	\$ 634,677	\$ (4,496)
Motor Vehicle Highway	71,281	264,647	237,559	98,369
Local Road and Street	88,235	49,657	51,000	86,892
Park and Recreation	15,878	7,776	-	23,654
Law Enforcement Continuing Education	5,256	2,719	2,700	5,275
Riverboat	74,944	-	-	74,944
Donation	2,785	4,367	6,170	982
Cumulative Capital Improvement	24,724	16,500	95,729	(54,505)
Cumulative Capital Development	292,081	54,399	-	346,480
Communication	10,713	7,210	798	17,125
Final Grade Certification	4,100	2,250	3,200	3,150
Sprint PCS	26,600	18,200	-	44,800
Proprietary Funds:				
Water Utility - Operating	50,649	498,910	625,939	(76,380)
Water Utility - Improvement	1,438,490	101,384	318,597	1,221,277
Water Utility - Hook-on Sinking	145,657	88,535	52,544	181,648
Water Utility - Escrow	13,200	600	-	13,800
Water Utility - Hydrant Rental	-	27,480	-	27,480
Wastewater Utility - Operating	66,073	831,518	868,582	29,009
Wastewater Utility - Bond and Interest	705,194	305,081	303,214	707,061
Wastewater Utility - Hook-on Sinking	922,159	55,396	-	977,555
Totals	<u>\$ 4,008,346</u>	<u>\$ 2,916,483</u>	<u>\$ 3,200,709</u>	<u>\$ 3,724,120</u>

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds:				
General	\$ (4,496)	\$ 1,548,374	\$ 1,632,489	\$ (88,611)
Motor Vehicle Highway	98,369	751,435	806,797	43,007
Local Road and Street	86,892	53,273	135,717	4,448
Park and Recreation	23,654	3,605	-	27,259
Law Enforcement Continuing Education	5,275	2,461	14	7,722
Riverboat	74,944	-	-	74,944
Rainy Day	-	14,493	-	14,493
Donation	982	120	18	1,084
Cumulative Capital Improvement	(54,505)	100,397	36,727	9,165
Cumulative Capital Development	346,480	56,857	-	403,337
Communication	17,125	3,605	-	20,730
Final Grade Certification	3,150	900	3,150	900
Sprint PCS	44,800	16,800	44,914	16,686
Proprietary Funds:				
Water Utility - Operating	(76,380)	782,180	733,670	(27,870)
Water Utility - Improvement	1,221,277	429,569	659,895	990,951
Water Utility - Hook-on Sinking	181,648	5,551	-	187,199
Water Utility - Escrow	13,800	-	-	13,800
Water Utility - Hydrant Rental	27,480	37,158	12,333	52,305
Wastewater Utility - Operating	29,009	898,209	774,220	152,998
Wastewater Utility - Bond and Interest	707,061	355,272	304,136	758,197
Wastewater Utility - Hook-on Sinking	977,555	216,453	14,115	1,179,893
Totals	<u>\$ 3,724,120</u>	<u>\$ 5,276,712</u>	<u>\$ 5,158,195</u>	<u>\$ 3,842,637</u>

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

TOWN OF WHITELAND
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, health and social services, culture and recreation, general administrative services and utility service for water and wastewater.

Note 2. Fund Accounting

The Town uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Town in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the Town on or prior to December 31 of the year collected.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

TOWN OF WHITELAND
NOTES TO FINANCIAL INFORMATION
(Continued)

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.

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Town contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

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

The Town and Utilities have entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Town		
Capital Lease:		
2006 Police Cars	\$ 23,905	\$ 25,116
Total governmental activities debt	<u>\$ 23,905</u>	<u>\$ 25,116</u>
Business-type Activities:		
Water Utility		
Revenue Bond:		
2005 Water Works Bonds	1,275,000	103,825
Wastewater Utility		
Loan Payable:		
2000 Note Payable	3,265,000	303,825
Total business-type activities debt:	<u>\$ 4,540,000</u>	<u>\$ 407,650</u>

TOWN OF WHITELAND
EXAMINATION RESULTS AND COMMENTS

INTERNAL CONTROLS – RECEIPTS

Controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient:

The Clerk-Treasurer receipted funds from the Water and Wastewater Utilities to the Town's General Fund in error. These funds were to cover the payroll costs of the Utilities and were to be receipted to the Payroll Funds and deposited into the Town bank account (which includes both the Town General Fund and the Payroll Funds). As a result, the General Fund cash and investment book balance as of December 31, 2007, was overstated by \$265,475.85. The Schedule of Receipts, Disbursements and Cash and Investment Balances as of December 31, 2007 was approved by the Town to be adjusted by this amount; however, as of the date of this report the adjustment has not been posted to the books.

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)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were incorrect. Some of the errors noted were:

In late 2006, the Clerk-Treasurer changed financial software. As a part of the new software, there were automated bank reconciliation reports which were used. However, the accompanying outstanding transactions (deposits and checks) were not correct. There was no evidence that the Clerk-Treasurer had verified the outstanding transactions.

There were also 11 Water and Wastewater Utility checks totaling \$90,046.94 for the transfer of funds for gross payroll and the employer share of payroll taxes, which were still on the outstanding check lists as of December 31, 2007. These checks were never deposited. In December 2008, the Clerk-Treasurer voided these checks, reissued, and subsequently deposited them into the Town's bank account. The checks were posted as a receipt to the Payroll Fund at the time of original issuance.

There were three amounts included as deposits in transit; however, one was a \$500,000 paper transfer which was completed in November 2007; the other two were lump sum amounts of \$74,408.58 and \$38,930.24 which were not identified; nor could the Clerk-Treasurer identify those amounts. These amounts were removed from the deposits in transit for December 31, 2007.

There was an additional step in the software, which would create the actual file of all the net payroll checks. This was not done; therefore, the outstanding check list included a lump sum which was the total of all the net payroll checks. As a result, there were no actual net payroll checks in the reconciliation side of the software, and therefore, none of these checks were included on the outstanding check lists. However, several of the lump sum amounts were included and did remain, in error, on the outstanding checklist.

TOWN OF WHITELAND
EXAMINATION RESULTS AND COMMENTS
(Continued)

There was no consistent procedure in the treatment of checks. There were some checks created in the system to transfer the gross payroll amounts and the employer share of FICA and Medicare to the Payroll Fund. Since the General Fund and the Motor Vehicle Highway Fund were both in the same checking account as the Payroll Fund, these checks were generally noted as "voided", even though they were used to post as book transfers only. These types of checks used for book transfers only should be clearly marked as "book transfer only" and clearly defaced, to prevent the check from being presented as a regular check for payment.

There were differences between the amounts on the outstanding checklist for electronic fund transfers for federal, FICA and Medicare taxes as well as state and local taxes. The outstanding check amounts did not agree to the amounts which were electronically transferred in January 2008.

There was no evidence that any of the following items were considered or used in the reconciling process: receipts which had been deposited to the wrong bank account; charge back items, bank debit memos, and interest and bank fees were not included as reconciling items.

As of December 18, 2008, the Clerk-Treasurer had re-done the outstanding check lists for the various Town funds through December 31, 2007, and Payroll Funds for most of 2008. The Water and Wastewater Utility funds' reconcilements were done through July 2008; however, there are still multiple items on each reconciliation, which will have to be reviewed and corrective action taken. Such items include, deposits made to the wrong bank account, checks written from one fund which should have been written from a different fund; EFT transfers which had not been posted; debit memos; bank interest; older outstanding checks including payroll taxes or retirement funds, which have possibly been reissued;

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."

CONDITION OF RECORDS

Financial records and the annual CTAR report presented for examination were incomplete and not reflective of the activity of the Payroll Fund. The records presented did not provide sufficient information to examine or establish beginning balances, receipts, disbursements, ending balances, or the accuracy or correctness of the transactions. The Town switched to a new accounting software in 2006 and as a result of the conversion process and loading balances from the previous system, information for payroll activity could not be easily computed. The 2007 information did printout; however, the Clerk-Treasurer did find that there was at least one payroll and a partial payroll that did not get posted to the Payroll funds in 2007.

There was an electronic funds transfer of \$7,694.78 made to the Internal Revenue Service on January 18, 2007. We were unable to connect this to a specific payroll. The Clerk-Treasurer was unable to, as well. We did note a reimbursement of \$9,089.15 from the Internal Revenue Service in August 2007.

TOWN OF WHITELAND
EXAMINATION RESULTS AND COMMENTS
(Continued)

The 2007 CTAR detail of receipts and disbursements had several funds co-mingled. It appeared that the codes were not entered correctly in the software in order to compile the individual funds' receipts and disbursements.

On December 29, 2006, there was a check in the amount of \$98,087.16 issued to Wastewater Bond and Interest fund. However, this amount was not receipted to, or deposited to, the Wastewater Bond and Interest fund until March 7, 2007.

The Town prepared year end investment reconciliation, CTAR report, and investment register were not in agreement at year end. The Town did not maintain an investment register for the examination period.

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)

PENALTIES, INTEREST, AND OTHER CHARGES

Two police vehicle lease payments were paid three to four months after the due dates of the lease resulting in late fees being assessed by the finance company. One late payment penalty and interest fee totaling \$251.16 was paid to Key Government Finance Incorporated on December 10, 2007.

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)

INTERNAL CONTROLS

Controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient:

TOWN OF WHITELAND
EXAMINATION RESULTS AND COMMENTS
(Continued)

Transfers between bank accounts were posted to the accounting system. These transfers were, at times, co-mingled with fund transfers and regular disbursements. It was difficult to determine and trace these transfers and difficult to distinguish these transfers from Utility or other funds' transfers.

Transfers between bank accounts should not be posted to the accounting system.

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)

OVERDRAWN CASH BALANCES

The cash balances of the Cumulative Capital Improvement Fund were overdrawn as of December 31, 2006, and the Water Operating Fund was overdrawn as of December 31, 2006 and 2007.

Also, as a result of errors in posting receipts, the General Fund cash balance as of December 31, 2007, was adjusted, which resulted in a negative balance.

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)

APPROPRIATIONS

The records presented for examination indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
General	2007	<u>\$ 135,697.65</u>

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."

TOWN OF WHITELAND
EXAMINATION RESULTS AND COMMENTS
(Continued)

DELINQUENT WASTEWATER ACCOUNTS

As stated in prior Reports B20017, B25061 and B29442, delinquent wastewater fees and penalties had not been 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 of 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. . . ."

DEPOSITS (Applies to Planning and Police Departments)

As stated in the prior Reports B25061 and B29442, in numerous instances, receipts were deposited later than the next business day.

Indiana Code 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

POSTING RECORDS AT THE TIME INVESTMENTS ARE PURCHASED OR SOLD

Confirmed investment balances at year end were not in agreement with the 2006 CTAR report presented for examination. The CTAR reported investment balances for the Town and Utilities of \$2,822,000.00 on December 31, 2006. Supporting investment statements reflected an investment

TOWN OF WHITELAND
EXAMINATION RESULTS AND COMMENTS
(Continued)

balance for the Town and Utilities of \$2,863,544.92, a difference of 41,544.92. In addition, no investment register (Form 350) was maintained for investment activity for the examination period. At December 31, 2007, the Town and Utilities held no investments.

- (1) At the time investments are purchased, the treasurer and/or bookkeeper should enter the full cost of the securities (purchase price plus accrued interest) as a disbursement from the fund or funds from which the investment is made. Where an investment is made from "total monies on deposit," the warrant issued will not be posted in the ledger, but a memorandum account should be set up in a separate section of the ledger to which investment transactions will be posted.
- (2) When an investment is made from a specific fund, a new fund entitled "Investments Fund" should be setup on the records. The net price (purchase price less accrued interest) should be entered as a receipt to this fund. The Investment Register, General Form 350, should be used for keeping a record of all investments purchased by the political subdivision.
- (3) Interest received in such investments by fund should be entered as a receipt to the fund from which the investment was purchased. Interest received from investment of total monies on deposit should be receipted to the general fund or the fund specified by the governing board.
- (4) When the investments by fund are sold, the full amount of such sale should be entered as receipt to the fund from which the investment was made. The receipt should show separately the principal (purchase price) received and the interest received from the investment. At this time, the net purchase price (purchase price less accrued interest) should also be entered as a disbursement from the "Investments Fund." When the investment from total monies on deposit is sold the principal (purchase price) will not be posted as a receipt to the ledger but the interest thereon will be posted as a receipt to the general fund or fund designated by governing board. Proper entry shall be also be made in the memorandum account, as well as in the Investment Register.

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

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."

CAPITAL ASSET RECORDS

As stated in prior Reports B20017, B25061 and B29442, the Town and its Utilities do not maintain sufficient detailed records of capital assets.

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 Asset 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 WHITELAND
EXIT CONFERENCE

The contents of this report were discussed on December 22, 2008, with Michelle R. Gabehart, Clerk-Treasurer, and Dennis Capozzi, Town Manager. The officials concurred with our findings.