

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

EXAMINATION REPORT
OF
TOWN OF SELLERSBURG
CLARK COUNTY, INDIANA
January 1, 2007 to December 31, 2007



FILED
04/07/2009

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	David L. Kinder	01-01-04 to 12-31-11
President of the Town Council	Douglas J. Reiter Brian K. Meyer	01-01-07 to 12-31-07 01-01-08 to 12-31-09
Director of Municipal Works	Kenneth J. Alexander	01-01-07 to 12-31-09
President of the Park Board	Janet Rudd Glen Wisdom	01-01-07 to 12-31-07 01-01-08 to 12-31-09



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 SELLERSBURG, CLARK COUNTY, INDIANA

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

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

February 9, 2009

TOWN OF SELLERSBURG
SCHEDULES 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	\$ 519,096	\$ 1,708,846	\$ 2,225,980	\$ 1,962
Motor Vehicle Highway	346,718	282,805	515,965	113,558
Local Road and Street	88,247	63,697	64,763	87,181
Park and Recreation	73,116	89,117	112,270	49,963
Police Station	4,508	2,840	1,640	5,708
Police Grants	1,736	61,133	59,179	3,690
Law Enforcement Continuing Education	34,264	9,147	8,304	35,107
Police Vehicle Lease	-	126,629	-	126,629
Group Insurance	41,790	13,545	-	55,335
Cumulative Capital Improvement	32,879	21,323	25,296	28,906
Cumulative Capital Development	186,569	31,429	47,372	170,626
Economic Development Income Tax	66,465	309,326	33,429	342,362
Rainy Day	-	276,727	-	276,727
Engineering Fees	14,785	-	1,200	13,585
Clerks Record Perpetual Fund	2,741	1,817	-	4,558
Deferral User Fee Fund	-	2,117	-	2,117
Proprietary Funds:				
Water Utility - Operating	259,479	1,026,608	1,102,317	183,770
Water Utility - Debt Service Reserve	321,395	305,200	304,845	321,750
Water Utility - Customer Deposit	257,039	64,050	25,142	295,947
Water Utility - Improvement	395,950	12,335	312,784	95,501
Wastewater Utility - Operating	548,471	1,765,120	1,649,781	663,810
Wastewater Utility - BAN	747,108	1,020,960	101,105	1,666,963
Wastewater Utility - Bond and Interest	1,700	396,048	332,914	64,834
Wastewater Utility - Debt Service Reserve	386,476	-	-	386,476
Wastewater Utility - Improvement	313,024	-	136,039	176,985
Wastewater Utility - Reserve	288,497	464,360	216,963	535,894
Wastewater Utility - Expansion	68,228	169,400	-	237,628
Fiduciary Funds:				
Police Officers' Pension	177,232	79,795	95,720	161,307
Town Court	59,411	227,177	209,802	76,786
Construction Retainage	78,065	17,663	87,044	8,684
Payroll	1,668	2,247,256	2,247,653	1,271
Totals	\$ 5,316,657	\$ 10,796,470	\$ 9,917,507	\$ 6,195,620

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

TOWN OF SELLERSBURG
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, highway and streets, public improvements, planning and zoning, culture and recreation, economic development, water, wastewater, sanitation, and general administrative services.

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.

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 SELLERSBURG
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plan

A. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

1. 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 the 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 member's 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. The 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 plan members for PERF are established by the Board of Trustees of PERF.

2. 1925 Police Officers' Pension Plan

Plan Description

The Town contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

TOWN OF SELLERSBURG
NOTES TO FINANCIAL INFORMATION
(Continued)

B. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The Town contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF 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 Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the Town is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the Town are established by the Board of Trustees of PERF.

TOWN OF SELLERSBURG
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 are included if acquired (purchased, constructed, or donated) after January 1, 2004, or if they received major renovations, restorations, or improvements after that date. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 2,017,878
Infrastructure	4,205,839
Buildings	1,840,632
Improvements other than buildings	330,464
Machinery and equipment	<u>1,395,011</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 9,789,824</u>
 Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 976,526
Buildings	789,020
Improvements other than buildings	4,956,909
Machinery and equipment	<u>181,808</u>
 Total Water Utility capital assets	 <u>6,904,263</u>
 Wastewater Utility:	
Capital assets, not being depreciated:	
Land	118,199
Buildings	734,263
Improvements other than buildings	30,976,477
Machinery and equipment	<u>1,223,102</u>
 Total Wastewater Utility capital assets	 <u>33,052,041</u>
 Total business-type activities capital assets	 <u>\$ 39,956,304</u>

TOWN OF SELLERSBURG
 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:		
Police Vehicles	\$ 137,568	\$ 45,856
Vacon Truck (1/2)	51,661	18,401
Office Building (1/3)	<u>81,966</u>	<u>18,300</u>
Total governmental activities debt	<u>\$ 271,195</u>	<u>\$ 82,557</u>
Business-type Activities:		
Water Utility		
Capital leases:		
Office Building (1/3)	\$ 81,966	\$ 18,300
Revenue bonds:		
1993 Water Works Refunding Bonds	<u>810,000</u>	<u>304,815</u>
Total Water Utility	<u>891,966</u>	<u>323,115</u>
Wastewater Utility		
Capital leases:		
Belt Press	\$ 48,675	\$ 17,394
Vacon Truck (1/2)	51,661	18,401
Office Building (1/3)	81,966	18,300
Notes and loans payable	3,000,000	994,216
Revenue bonds:		
2003 Wastewater Refunding Bonds	<u>2,620,000</u>	<u>393,403</u>
Total Wastewater Utility	<u>5,802,302</u>	<u>1,441,714</u>
Total business-type activities debt:	<u>\$ 6,694,268</u>	<u>\$ 1,764,829</u>

TOWN OF SELLERSBURG
EXAMINATION RESULTS AND COMMENTS

CASH DIVERTED FROM DEPOSITS (Applies to Water and Wastewater Utilities)

We identified \$9,597.94 of cash diverted from deposits of Utility funds by means of a "checks substituted for cash" scheme. This type of scheme is facilitated when a payment received in the form of a check is not recorded on the financial records. The unrecorded check is then substituted by the employee for cash received from recorded payments and cash is diverted from the deposit in the amount of the substituted check. This type of scheme can go undetected because the total collections recorded on the financial records for a specific date will agree with the deposit amount for that date.

Our comparison of bank deposit information obtained from JP Morgan Chase Bank with utility financial records showed checks included in deposits that were either not recorded on the financial records or were recorded at an amount less than the actual check amount. The following is a schedule of checks included in the bank deposit that were either not recorded in the financial records or recorded at a lesser amount and the resulting cash difference diverted from the bank deposit:

Deposit Date	Actual Check Amount	Amount Recorded on Financial Records	Cash Diverted From Deposit
11-06-07	\$ 50.00	\$ -	\$ 50.00
11-06-07	50.00	-	50.00
11-06-07	100.00	-	100.00
11-08-07	50.00	-	50.00
11-08-07	100.00	-	100.00
11-08-07	50.00	-	50.00
11-08-07	50.00	-	50.00
11-12-07	60.00	-	60.00
11-14-07	5,945.00	5,135.00	810.00
11-15-07	3,970.00	3,270.00	700.00
11-19-07	100.00	-	100.00
11-21-07	765.00	100.00	665.00
11-27-07	1,057.35	-	1,057.35
12-04-07	854.74	-	854.74
12-20-07	3,785.00	3,120.00	665.00
01-02-08	862.65	-	862.65
01-16-08	<u>3,373.20</u>	-	<u>3,373.20</u>
 Totals	 <u>\$ 21,222.94</u>	 <u>\$ 11,625.00</u>	 <u>\$ 9,597.94</u>

The checks that were substituted for cash consisted primarily of payments received for customer deposits, tap-in fees, sprinkler fees, and expansion fees.

Stephanie R. Bower, former Utility Billing Manager, performed the following duties regarding the reporting and depositing of Utility collections:

TOWN OF SELLERSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

1. Stephanie R. Bower was responsible for recording customer utility payments through the Utilities' computerized accounting system that generated the Daily Deposit Report for the above dates.
2. Stephanie R. Bower was responsible for reconciling collections reported on the Daily Report of Collections Summary to cash and checks received for the above dates.
3. Stephanie R. Bower was responsible for making the bank deposits for the above dates.

No discrepancies were noted on any days in which a Utility employee other than Stephanie R. Bower performed the above duties.

Based on the above information, Stephanie R. Bower failed to report and deposit cash collections totaling \$9,597.94.

IC 5-13-14-3 states in part: "A public officer who knowingly fails to deposit public funds, or knowingly deposits . . . except in the manner prescribed in this article, commits a Class B felony. The public officer also is liable upon the officer's official bond for any loss or damage that may accrue."

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Stephanie R. Bower, former Utility Billing Manager, was requested on February 2, 2009, to refund \$9,597.94 to the Town of Sellersburg Utilities. (See Summary, page 22)

COLLECTIONS NOT DEPOSITED (Applies to Water and Wastewater Utilities)

A comparison of the Daily Report of Collections Summary to bank deposits showed collections totaling \$950 were not deposited as shown in the following schedule:

<u>Date</u>	<u>Reported Collections</u>	<u>Deposits</u>	<u>Collections Not Deposited</u>
11-09-07	\$ 16,012.39	\$ 15,512.39	\$ 500.00
11-12-07	<u>14,446.46</u>	<u>13,996.46</u>	<u>450.00</u>
Totals	<u>\$ 30,458.85</u>	<u>\$ 29,508.85</u>	<u>\$ 950.00</u>

The Utilities have an accounting process in place that requires that all payments be marked on the utility payment stubs and on receipts to show the payment type (cash, check, money order). The payment type for customer utility payments is also recorded through the computerized accounting system and reported on a report titled "Daily Deposit Report." We analyzed the utility payment stubs; the Daily Deposit Reports; receipts; and bank deposits for the above dates. Our analysis showed that all payments marked "check" were deposited; however, collections marked "cash" were not deposited as shown below:

TOWN OF SELLERSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

Date	Reported Cash Collections	Cash Per Deposit Ticket	Adjustment	Cash Not Deposited
11-09-07	\$ 855.93	\$ (355.93)	\$ -	\$ 500.00
11-12-07	<u>658.89</u>	<u>(148.89)</u>	<u>(60.00)</u>	<u>450.00</u>
Totals	<u>\$ 1,514.82</u>	<u>\$ (504.82)</u>	<u>\$ (60.00)</u>	<u>\$ 950.00</u>

The \$60 adjustment shown in the above schedule represents \$60 in cash diverted from the cash deposit by means of a "checks substituted for cash" scheme that is more fully described in the Examination Result and Comment titled "Cash Diverted from Deposits."

Stephanie R. Bower, former Utility Billing Manager, was responsible for preparing a report, titled Report of Monthly Collections, of utility collections that is submitted to the Clerk-Treasurer's office. The Report of Monthly Collections is a compilation of the Daily Report of Collections Summary. The total of Utility collections reported on the individual Daily Report of Collections Summary should equal the total Utility collections reported on the Report of Monthly Collections submitted to the Clerk-Treasurer's office. The following is a comparison of collections reported on these two reports for November of 2007:

Reported to Clerk-Treasurer	\$ 232,830
Reported on Daily Report of Collections Summary	<u>233,780</u>
Variance	<u>\$ (950)</u>

The collections reported to the Clerk-Treasurer are the source documents used by the Clerk-Treasurer's office to record collections on their financial records. The under reporting of collections allowed the cash not deposited to go undetected by the Clerk-Treasurer's office during the normal course of performing their accounting duties. If collections reported to the Clerk-Treasurer had been based on amounts reported on the Daily Report of Collections Summary, the cash not deposited would have been discovered by the Clerk-Treasurer's office when they performed their month end bank reconciliation.

In addition to preparing the Report of Monthly Collections that was submitted to the Clerk-Treasurer's Office, Stephanie R. Bower performed the following duties regarding the reporting and depositing of utility collections:

1. Stephanie R. Bower was responsible for recording customer utility payments through the Utilities' computerized accounting system that generated the Daily Deposit Report on November 9 and November 12, 2007.
2. Stephanie R. Bower was responsible for reconciling collections reported on the Daily Report of Collections Summary to cash and checks received on November 9 and November 12, 2007.
3. Stephanie R. Bower made the bank deposits on November 9 and November 12, 2007.

TOWN OF SELLERSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

No discrepancies were noted on any days in which a Utility employee other than Stephanie R. Bower performed the above duties.

Based on her performance of the above duties, Stephanie R. Bower failed to report and deposit collections totaling \$950.00.

IC 5-13-14-3 states in part: "A public officer who knowingly fails to deposit public funds, or knowingly deposits . . . except in the manner prescribed in this article, commits a Class B felony. The public officer also is liable upon the officer's official bond for any loss or damage that may accrue."

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Stephanie R. Bower, former Utility Billing Manager, was requested on February 2, 2009, to refund \$950 to the Town of Sellersburg Utilities. (See Summary, page 22)

RECEIPTS NOT RECORDED OR DEPOSITED (Applies to Water and Wastewater Utilities)

Our comparison of receipts written to receipts recorded on the Daily Report of Collection Summary showed \$754.35 of receipts were not reported on the Daily Report of Collection Summary and were not deposited. The following is a schedule of receipts not reported or deposited:

Receipt No.	Date	Description	Collection Type	Amount
9968	11-05-07	Customer Deposit	Cash	\$ 100.00
9971	11-05-07	Customer Deposit	Cash	100.00
9972	11-05-07	Customer Deposit	Cash	100.00
9973	11-06-07	Customer Deposit	Cash	100.00
9998	11-15-07	Customer Deposit	Cash	100.00
9999	11-15-07	Customer Deposit	Cash	100.00
130	11-06-07	Returned Check Fee	Money Order	<u>154.35</u>
Total Receipts Not Deposited				<u>\$ 754.35</u>

Stephanie R. Bower, former Utility Billing Manager, performed the following duties regarding the reporting and depositing of Utility collections:

1. Stephanie R. Bower was responsible for recording customer utility payments through the Utilities' computerized accounting system for the above dates.
2. Stephanie R. Bower was responsible for reporting all collections on the Daily Report of Collection Summary for the above dates.
3. Stephanie R. Bower was responsible for reconciling collections reported on the Daily Report of Collections Summary to cash and checks received for the above dates.
4. Stephanie R. Bower was responsible for making the bank deposits for the above dates.

TOWN OF SELLERSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

No discrepancies were noted on any days in which a utility employee other than Stephanie R. Bower performed the above duties.

Based on the above information, Stephanie R. Bower failed to record and deposit cash collections totaling \$754.35.

IC 5-13-14-3 states in part: "A public officer who knowingly fails to deposit public funds, or knowingly deposits . . . except in the manner prescribed in this article, commits a Class B felony. The public officer also is liable upon the officer's official bond for any loss or damage that may accrue."

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Stephanie R. Bower, former Utility Billing Manager, was requested on February 2, 2009, to refund \$754.35 to the Town of Sellersburg Utilities. (See Summary, page 22)

PUBLIC EMPLOYEE DISHONESTY COVERAGE

Stephanie R. Bower, former Utility Billing Manager, is covered by the following "Public Employee Dishonesty" policy:

Insurer:	Municipal Insurance Alliance Agency
Policy Number:	PKG90110225
Period of Coverage:	August 15, 2007 to August 15, 2008
Amount:	\$25,000
Deductible:	\$ 250

ADDITIONAL EXAMINATION COSTS (Applies to Water and Wastewater Utilities)

Additional examination costs were incurred by the State of Indiana to investigate cash diverted from deposits, collections not deposited, and receipts not recorded or deposited.

Examination costs incurred because of theft or shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DEPOSITS (Applies to Water and Wastewater Utilities)

In numerous instances, receipts were deposited later than the next business day. For receipts issued in November 2007, eighteen instances were noted in which receipts were not deposited until 3 to 156 days following the receipt of the funds.

IC 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."

TOWN OF SELLERSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

CONFLICT OF INTEREST (Applies to Town Council)

The spouse of Town Council member, Michael N. Lockhart, is an employee of the Sellersburg Utilities. The Town Council approves the salaries and wages for all Town and Utilities employees. During 2007, Mr. Lockhart's spouse received compensation in the amount of \$30,111. Mr. Lockhart did not file a Uniform Conflict of Interest Disclosure Statement disclosing his pecuniary interest.

IC 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."

MOTOR VEHICLE HIGHWAY FUND EXPENDITURES (Applies to Town Council)

Law enforcement expenditures paid from the Motor Vehicle Highway Fund were \$40,871 in 2007. This is equivalent to 22% of the total Motor Vehicle Highway distributions received for 2007.

According to the 2000 census, the population of the Town of Sellersburg was 6,071.

IC 8-14-1-5 addresses the permissible uses of the municipal allocations of Motor Vehicle Highway Funds. In section (b), it states in part:

TOWN OF SELLERSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

". . . 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.
- (2) For cities and towns other than those specified in subdivision (1) of this subsection, no more than ten percent (10%) may be spent for law enforcement purposes."

A similar comment was made in prior Report B31056.

INTERNAL CONTROLS (Applies to Parks Department)

Town procedures require the Pool Manager to prepare a daily concession report and daily pool pass report for the receipts generated by the operation of the swimming pool. These reports are used to reconcile the cash collections for the day to the cash register tapes and to the actual daily deposit that is to be made by the Pool Manager. Any differences between the cash collections, cash register tape, and deposit are to be documented on these reports. These reports also provide for the Pool Manager to break down the collections based on the form of the collection, i.e. cash or check. From the reconciliation reports, the Pool Manager is to summarize all collections onto a daily report of collection and attach to it the reconciliation reports, cash register tapes, deposit slips and any other supporting documentation. The daily report of collections is to be submitted to the Clerk-Treasurer's office daily.

During our review we noted the following deficiencies:

1. Ten instances were noted in which the cash register tapes were not attached to the Report of Collections. The collections reported for these days could not be verified.
2. Supporting documentation such as season pass applications and pool party applications were not attached to the reconciliation reports or daily report of collections.
3. One instance was noted in which receipts were not deposited until six days after the date of collection.
4. During the month of August, seven instances were noted in which the report of collections was never remitted to the Clerk-Treasurer. Collections had to be posted by the Clerk-Treasurer from deposit tickets received from the bank.
5. During the month of August, two instances were noted in which the reports of collections were not remitted to the Clerk-Treasurer until six and seven days after the actual date of the collection.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF SELLERSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

IC 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."

A similar comment was made in prior Report B31056.

POOL FEES (Applies to Parks Department)

Documentation was not presented for examination showing that the Park Board approved fees for season passes, daily admissions, pool parties, etc.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

A similar comment was made in prior Report B31056.

PUBLIC RECORD RETENTION - SERVICE RECORDS
(Applies to Water and Wastewater Utilities, and Public Works)

Employee service records (Form 99A) were not presented for examination for Utility employees. The Director of Municipal Works stated that these records were maintained by the former Utility Manager and that these records could not be located after the former Utility Manager resigned.

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)

IC 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission. . . ."

COLLECTION POLICY (Applies to Town Council)

The Town Council does not have a written policy addressing bad debts and write-offs for its Water Utility.

As of December 31, 2007, approximately \$24,004 or 23% of all outstanding water account balances were over ninety days old. The collectability of these accounts could not be determined.

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. The governing board over a Wastewater Utility should also adopt written collection policies for those areas not covered by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7).

A similar comment was made in prior Report B31056

TOWN OF SELLERSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

CUSTOMER DEPOSIT REGISTER (Applies to Water and Wastewater Utilities)

The following deficiencies regarding the accounting for customer deposits were noted:

1. Utility Form No. 314 (Guarantee Deposit Register) is not being maintained. Information concerning customer deposits was being maintained on an Excel spreadsheet.

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)

2. The detailed customer deposit registers (excel spreadsheets) were incomplete and the totals did not reconcile with the customer deposit amount recorded in the cash ledger. Receipts were found to be properly recorded in the customer deposit register; however, not all customer deposit disbursements had been properly recorded.

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)

3. The cash ledger contains an account for Utility Meter Deposits. It shows a combined balance for all deposits received for the Utilities. It does not show the respective cash balances for the Water and Wastewater Utility separately.

Separate records prescribed or approved by the State Board of Accounts will be maintained for water, wastewater, electric, and gas utilities following the Uniform System of Accounts for each utility published by the National Association of Regulatory Utility Commissioners. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

A similar comment was made in prior Report B31056.

SALES TAX (Applies to Water Utility)

Monthly sales tax remittances to the Indiana Department of Revenue were not properly calculated. The monthly sales tax remittances did not properly account for exempt sales and adjustments made to correct for over billings to customers. The following deficiencies were noted:

1. Tax exempt sales were not properly deducted from the total sales amount, causing the Utility to pay sales tax on exempt sales.
2. Adjustments for billing errors were not being subtracted from the total water sales, resulting in sales tax being improperly paid on these amounts.

Utility officials stated that they were not aware that the monthly sales tax liability was not being calculated correctly and that they have been using the same procedures to calculate the monthly sales tax liability for many years.

TOWN OF SELLERSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

Officials were instructed to contact the Indiana Department of Revenue to determine the procedures required for filing corrected monthly sales tax returns and the procedures required to obtain refunds for any overpayments. Officials subsequently contacted the Indiana Department of Revenue and obtained the required procedures. On February 3, 2009, the Utility filed a claim for refund with the Indiana Department of Revenue for overpayment of sales tax in the amount of \$19,821.45.

Detail of the refund request is as follows:

<u>Tax Year</u>	<u>Months</u>	<u>Amount</u>
2006	May to December	\$ 5,682.51
2007	January to December	9,109.62
2008	January to September	<u>5,029.32</u>
Totals		<u>\$ 19,821.45</u>

As of February 9, 2009, the Utility has not received notification by the Indiana Department of Revenue that their refund request has been granted.

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FAILURE TO TIMELY FILE AND REMIT UTILITY RECEIPTS TAX (Applies to Water Utility)

The Utility is required to remit quarterly estimated utility receipts tax (URT) to the Indiana Department of Revenue. Quarterly remittances are due by the 20th of April, June, September, and December of each year. The Utility is also required to file annually a Utility Receipts Tax Return (Form URT-1). Form URT-1 is due by April 15, of the subsequent year.

During the examination we noted the following deficiencies:

1. The 2007 third quarter estimated URT was not remitted until September 10, 2008.
2. The 2008 second quarter estimated URT was not remitted until July 3, 2008.
3. The 2008 third quarter estimated URT was not remitted until September 22, 2008.
4. The Utility had failed to file Form URT-1 for the years 2004 thru 2007.

During 2008, the Utility hired a CPA firm at a cost of \$2,950.00 to prepare all the outstanding Form URT-1's. On November 10, 2008, officials filed Form URT-1 for the years 2004 through 2007 and paid all outstanding Utility Receipts Tax owed, including interest for late payments. Penalties for late filing were waived by the Indiana Department of Revenue. A summary of the Utility Receipts Tax and interest paid for the liability periods is as follows:

TOWN OF SELLERSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

<u>Description</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Totals</u>
Utility Receipts Tax	\$ 1,565.37	\$ 649.29	\$ 2,811.40	\$ 3,783.51	\$ 8,809.57
Interest	<u>268.64</u>	<u>89.94</u>	<u>269.12</u>	<u>151.24</u>	<u>778.94</u>
Totals	<u>\$ 1,834.01</u>	<u>\$ 739.23</u>	<u>\$ 3,080.52</u>	<u>\$ 3,934.75</u>	<u>\$ 9,588.51</u>

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)

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)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF SELLERSBURG
EXIT CONFERENCE

The contents of this report were discussed on February 9, 2009, with Brian K. Meyer, President of the Town Council; David L. Kinder, Clerk-Treasurer; Michelle D. Eve, Chief Deputy Clerk-Treasurer; Kenneth J. Alexander, Director of Municipal Works; James H. La Masters, member of the Town Council; and Lana G. McCutcheon, Utility Billing Manager. The officials concurred with our findings.

The contents of this report regarding amounts requested to be refunded to the Sellersburg Utilities were discussed separately on February 2, 2009, with Stephanie R. Bower, former Utility Billing Manager.

The contents of this report regarding the Park Department were discussed separately on December 9, 2008, with Glen Wisdom, President of the Park Board. Glen Wisdom concurred with our findings concerning the Park Department.

TOWN OF SELLERSBURG
CLARK COUNTY
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Stephanie R. Bower, former Utility Billing Manager:			
Cash Diverted From Deposits, pages 10 and 11	\$ 9,597.94	\$ -	\$ 9,597.94
Collections Not Deposited, pages 11 through 13	950.00	-	950.00
Receipts Not Recorded or Deposited, pages 13 and 14	<u>754.35</u>	<u>-</u>	<u>754.35</u>
Totals	<u>\$ 11,302.29</u>	<u>\$ -</u>	<u>\$ 11,302.29</u>

AFFIDAVIT

STATE OF INDIANA)
)
Clark COUNTY)

We, Brian T. Watkins and Karen S. Kelleher, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the Town of Sellersburg, Clark County, Indiana, for the period from January 1, 2007 to December 31, 2007, is true and correct to the best of our knowledge and belief.

Karen S. Kelleher

Brian T. Watkins

Field Examiners

Subscribed and sworn to before me this 17 day of March, 2009.

Barbara Haas

Clerk of the Circuit Court