

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

EXAMINATION REPORT
OF
CITY OF BRAZIL
CLAY COUNTY, INDIANA
January 1, 2008 to December 31, 2008



FILED
01/26/2010

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Mayor	A. Ann Bradshaw	01-01-08 to 12-31-11
Clerk-Treasurer	Karen McQueen	01-01-08 to 12-31-11
President of the Board of Public Works and Safety	A. Ann Bradshaw	01-01-08 to 12-31-09
President of the Common Council	William Lovett Patricia Heffner	01-01-08 to 12-31-08 01-01-09 to 12-31-09
Superintendent of the Water Utility	Richard E. Vanatti Jacob Raubach	01-01-08 to 12-31-08 01-01-09 to 12-31-09
Co-Superintendents of the Wastewater Utility	Jerry D. Robison Terry L. Robison	01-01-08 to 12-31-09 01-01-08 to 12-31-09
Utilities Office Manager	Sheryl J. Hill	01-01-08 to 12-31-09



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF BRAZIL, CLAY COUNTY, INDIANA

We have examined the financial information presented herein of the City of Brazil (City), for the period of January 1, 2008 to December 31, 2008. The City'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 City for the year ended December 31, 2008, 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 17, 2009

CITY OF BRAZIL
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2008

	Cash and Investments 01-01-08	Receipts	Disbursements	Cash and Investments 12-31-08
Governmental Funds:				
General	\$ (174,691)	\$ 2,862,681	\$ 2,919,280	\$ (231,290)
Motor Vehicle Highway	(20,324)	754,580	602,010	132,246
Local Road and Street	68,441	35,206	84,656	18,991
Park and Recreation	(25,565)	359,801	317,844	16,392
Cemetery	27,255	96,613	48,230	75,638
Rainy Day	(28)	121,753	-	121,725
General Obligation Bond	(6,652)	205,651	134,395	64,604
Redevelopment District Bond	31,382	92,589	13,635	110,336
Park and Recreation Nonreverting	7,541	2,638	1,404	8,775
Cemetery Nonreverting	-	25,496	-	25,496
Police Bike	19	-	-	19
Economic Development	22,039	-	-	22,039
Emergency Response Team	(2,306)	-	-	(2,306)
Community Development	-	150	-	150
Police Education	5,101	10,783	2,331	13,553
Police Grant	19,133	-	-	19,133
Police Deferral	17,414	34,859	30,194	22,079
Unsafe Buildings	5,769	5,284	-	11,053
Golf Course	(1,821)	378,347	355,020	21,506
Law Enforcement	2,967	189	189	2,967
Police Safety	2,471	2,375	-	4,846
Fire Education	156	4	-	160
Fire Special	6,825	46,686	36,832	16,679
Public Works Loan	-	-	57,222	(57,222)
Cumulative Capital Improvement	4,997	26,628	100,188	(68,563)
Cumulative Capital Development	162,354	70,148	-	232,502
Sidewalk Maintenance/Improvement	-	1,219	-	1,219
Sidewalk Capital Projects	-	13,998	-	13,998
Cumulative Drainage	-	1,200	1,147	53
Sanitation	72,560	567,151	373,317	266,394
Proprietary Funds:				
Water Utility - Operating	45,066	933,621	1,142,162	(163,475)
Water Utility - Debt Service Reserve	100,125	4,875	-	105,000
Water Utility - Customer Deposit	207,429	165,692	147,245	225,876
Water Utility - Improvement	15,448	-	-	15,448
Wastewater Utility - Operating	480,524	1,974,155	2,291,221	163,458
Wastewater Utility - Debt Service Reserve	1,354,263	51,244	-	1,405,507
Wastewater Utility - Escrow	958	-	958	-
Due To City Sanitation	23,296	37,108	10,915	49,489
Wastewater Utility - Improvement	-	-	-	-
Wastewater Utility - Construction	-	206	206	-
Fiduciary Funds:				
Police Officers' Pension	63,535	64,256	120,502	7,289
Firefighters' Pension	213,034	134,580	151,712	195,902
Health Claim Account	-	55,991	52,354	3,637
Payroll	(10,323)	145,133	174,788	(39,978)
Totals	<u>\$ 2,718,392</u>	<u>\$ 9,282,890</u>	<u>\$ 9,169,957</u>	<u>\$ 2,831,325</u>

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

CITY OF BRAZIL
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, culture and recreation, public improvements, planning and zoning, general administrative services, water, and wastewater.

Note 2. Fund Accounting

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

Note 3. Budgets

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

Note 4. Property Taxes

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

CITY OF BRAZIL
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 5. Deposits and Investments

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

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

Note 6. Subsequent Events

On January 16, 2009, the City received \$316,800 and \$663,300 of bond proceeds from the issuance of General Obligation Bonds of 2008 and Redevelopment District Special Taxing District Bonds of 2008, respectively. The General Obligation Bonds of 2008 were issued for the purpose of providing funds to be applied to pay for the construction and maintenance of public ways. The Redevelopment District Special Taxing District Bonds of 2008 were issued for the purpose of raising money for redevelopment and economic development in or connected to the North Central Economic Development Area.



CITY OF BRAZIL

Ann Bradshaw, Mayor
Karen McQueen, Clerk-Treasurer

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CITY OF BRAZIL
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2008

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Bonds payable:		
General obligation bonds:		
Sidewalk and curb improvements	\$ 575,000	\$ 73,004
Sidewalk and curb improvements	630,000	76,408
Notes and loans payable	<u>1,511,165</u>	<u>1,080,964</u>
Total governmental activities debt	<u>\$ 2,716,165</u>	<u>\$ 1,230,375</u>
Business-type Activities:		
Wastewater Utility		
Revenue bonds:		
Refunding	<u>7,015,000</u>	<u>498,265</u>
Total Wastewater Utility	<u>7,015,000</u>	<u>498,265</u>
Total business-type activities debt	<u>\$ 7,015,000</u>	<u>\$ 498,265</u>

William Lovett • Patricia Heffner • Steve Lamb • Brad Deal • Sam Glover
Council Members

CITY OF BRAZIL
EXAMINATION RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS (Applies to City)

Depository reconciliations of the fund balances to the bank account balances were incorrect for the following accounts:

1. General Treasury Account
2. Payroll Account
3. Brazil Fire Equipment Fund

The General Treasury Account is the pooling of City monies. The majority of City funds, excluding the Utilities' funds, comprise this account. While the bank balance reconciles with the General Ledger's balance for "Pooled Cash" as of December 31, 2008, the detail of the funds that should comprise the control "Pooled Cash" exceeds the balance by \$41,077.

Depository reconciliations of the fund balances to the bank account balances were not prepared for the following accounts:

1. K-9 Fund
2. Shop With A Cop
3. Health Reimbursement Account
4. Community Fund

IC 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."

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)

TRANSACTION RECORDING (Applies to City)

The transactions of the K-9 Fund, Shop With A Cop, Community Development Fund and Health Reimbursement Account bank accounts were not entered in the records of the Clerk-Treasurer for 2008 and to date in 2009.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ERRORS ON CLAIMS (Applies to City)

In 2008, the following errors were noted with claims:

1. Two of thirty-five Accounts Payable Vouchers tested did not contain adequate supporting documentation such as invoices or receipts.

CITY OF BRAZIL
EXAMINATION RESULTS AND COMMENTS
(Continued)

2. Thirty of thirty-five Accounts Payable Vouchers tested did not contain supporting evidence that goods or services were received.

IC 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."

DISBURSEMENTS WITHOUT APPROPRIATIONS (Applies to City)

An official budget for 2008 was not approved by the Indiana Department of Local Government Finance for the City. The City did not obtain additional appropriations to authorize the 2008 cash disbursements made to continue operating. Therefore, the following funds required to be budgeted were in excess of approved appropriations: General Fund, Motor Vehicle Highway, Local Road and Street, Park and Recreation, Cemetery, General Obligation Bond, Redevelopment District Bond Fund, and Cumulative Capital Improvement Fund.

IC 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."

OVERDRAWN CASH BALANCES (Applies to City and Water Utility)

The cash balance of the General Fund, Emergency Response Team Fund, Public Works Loan Fund, Water Utility Operating Fund, Payroll Fund, and Cumulative Capital Improvement Fund were overdrawn in 2008.

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)

CITY OF BRAZIL
EXAMINATION RESULTS AND COMMENTS
(Continued)

OLD OUTSTANDING CHECKS (Applies to City and Utilities)

Our review of the bank reconcilements as of December 31, 2008, revealed checks outstanding in excess of two years.

IC 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."

IC 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."

IC 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."

CAPITAL ASSET RECORDS (Applies to City)

The City, excluding the Water and Wastewater Utilities, has not taken a complete inventory of its capital assets owned and recorded the inventory in a Capital Assets Ledger (City and Town Form No. 211).

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)

CITY OF BRAZIL
EXAMINATION RESULTS AND COMMENTS
(Continued)

COMPENSATION AND BENEFITS (Applies to City)

City Ordinance 13-2007, as amended, authorizes employees to "sell" up to two weeks of vacation time accrued in lieu of taking vacation time.

A. Ann Bradshaw, Mayor; received \$1,181 and \$590 in payments for 2008 and 2009, respectively, for accrued vacation leave sold back to the City while Karen McQueen, Clerk-Treasurer; received \$1,058 in payments for 2008 for accrued vacation leave sold back to the City. However, in their position as elected employees, neither are entitled to earn vacation leave and no City ordinance existed authorizing the Mayor and Clerk-Treasurer to earn vacation leave.

The Mayor repaid the \$1,771 to the City in full on September 15, 2009, (Receipt 8430). The Clerk-Treasurer is in process of repaying the \$1,058 due by bi-weekly payroll deductions of \$100 beginning on September 25, 2009. As of the date of this report, \$600 has been repaid to the City by the Clerk-Treasurer.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OVERPAYMENT OF 2007 SALARIES (Applies to City)

A. Ann Bradshaw, Mayor; and Tracy Webster, former Clerk-Treasurer; received \$2,428 and \$2,306, respectively, in payments on October 16, 2008, and November 21, 2008, for what was thought to be 2007 underpayment of salary. However, it was later determined that the officials were actually not underpaid.

The Mayor repaid the \$2,248 to the City in full on February 5, 2009, (Receipt 298167). The former Clerk-Treasurer signed a promissory note on August 6, 2009, promising to repay \$2,306 to the City without interest in installments of \$100 per month, beginning September 15, 2009. As of the date of this report, \$200 has been repaid by the prior Clerk-Treasurer (Receipts 331238 dated September 22, 2009, and 334463 dated October 20, 2009, both for \$100).

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF BRAZIL
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2009, with A. Ann Bradshaw, Mayor; Karen McQueen, Clerk-Treasurer; and Lacey Brown, Utilities Accounts Payable Clerk. The officials concurred with our findings.