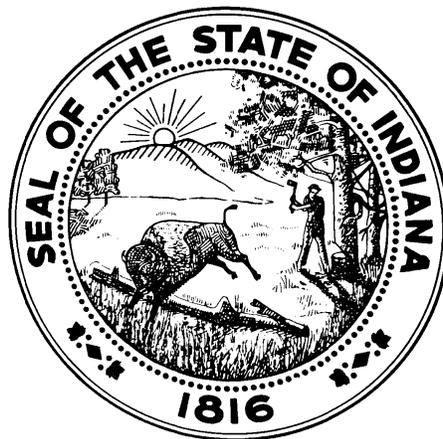


**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

EXAMINATION REPORT  
OF  
CITY OF BEECH GROVE  
MARION COUNTY, INDIANA  
January 1, 2008 to December 31, 2008



**FILED**  
02/12/2010



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OFFICIALS

| <u>Office</u>  | <u>Official</u>              | <u>Term</u>                                  |
|--|------------------------------|--|
| Clerk-Treasurer                                      | Sarah M. Kincaid             | 01-01-08 to 12-31-11                         |
| Mayor  | Donald J. Wright             | 01-01-08 to 12-31-11                         |
| President of the Board of<br>Public Works and Safety | Donald J. Wright             | 01-01-08 to 12-31-09                         |
| President of the Common Council                      | Ross Barton<br>John Jennings | 01-01-08 to 12-31-08<br>01-01-09 to 12-31-09 |
| Utility Operations Director                          | Sam Merl<br>Brad Meriwether  | 01-01-08 to 04-30-09<br>05-01-09 to 12-31-09 |
| Utility Office Manager                               | Linda Mohr                   | 01-01-08 to 12-31-09                         |



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF BEECH GROVE, MARION COUNTY, INDIANA

We have examined the financial information presented herein of the City of Beech Grove (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

November 4, 2009

CITY OF BEECH GROVE  
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<br>Investments<br>01-01-08 | Receipts             | Disbursements        | Cash and<br>Investments<br>12-31-08 |
|--------------------------------------|-------------------------------------|----------------------|----------------------|-------------------------------------|
| <b>Governmental Funds:</b>           |                                     |                      |                      |                                     |
| General                              | \$ 416,303                          | \$ 13,470,860        | \$ 11,605,842        | \$ 2,281,321                        |
| Rainy Day                            | 21,323                              | 151,966              | -                    | 173,289                             |
| Mayor's Donation                     | 9,159                               | 4,934                | 12,881               | 1,212                               |
| Public Safety                        | -                                   | 1,140,428            | 703,080              | 437,348                             |
| Motor Vehicle Highway                | 98,027                              | 616,758              | 848,978              | (134,193)                           |
| Local Road and Street                | 46,027                              | 193,695              | 177,650              | 62,072                              |
| Parks Nonreverting                   | 11,501                              | -                    | 1,125                | 10,376                              |
| Parks - Softball                     | 1,218                               | -                    | -                    | 1,218                               |
| Parks Donation                       | 14,359                              | 47,056               | 20,873               | 40,542                              |
| Senior Citizens Donation             | 31,315                              | 5,219                | 7,757                | 28,777                              |
| Police Donation                      | 3,867                               | 2,600                | 2,334                | 4,133                               |
| Fire Donation                        | 437                                 | 2,097                | 2,258                | 276                                 |
| Cable Donation                       | 101                                 | -                    | -                    | 101                                 |
| Police/Fire Trust                    | 2,530                               | -                    | -                    | 2,530                               |
| Law Enforcement Continuing Education | 15,826                              | 17,019               | 19,053               | 13,792                              |
| 2006 Bond Issue                      | 30,056                              | -                    | 9,460                | 20,596                              |
| Cumulative Capital Development       | 11,020                              | -                    | -                    | 11,020                              |
| Revolving Loan                       | 103,829                             | 63,333               | 26,402               | 140,760                             |
| Criminal Investigation               | 111,984                             | 130,376              | 60,051               | 182,309                             |
| RDAF - Debt Service Reserve          | 579,855                             | 3,626                | -                    | 583,481                             |
| RDAF - General Account               | 432,452                             | 840,488              | 888,623              | 384,317                             |
| RDAF - 2005 Bond Capital             | 1,274,545                           | 236,168              | 1,476,473            | 34,240                              |
| <b>Proprietary Funds:</b>            |                                     |                      |                      |                                     |
| Sewage Utility Operating             | 379,800                             | 2,491,441            | 2,437,800            | 433,441                             |
| Utility Bond and Interest            | 68,690                              | 198,221              | 176,140              | 90,771                              |
| Utility Construction                 | 314                                 | -                    | -                    | 314                                 |
| Utility Bond and Interest Reserve    | 135,680                             | 39,378               | -                    | 175,058                             |
| <b>Fiduciary Funds:</b>              |                                     |                      |                      |                                     |
| Health - Retirees                    | (1,032)                             | 62,945               | 60,285               | 1,628                               |
| Fire Pension                         | 17,820                              | 413,466              | 367,359              | 63,927                              |
| Police Pension                       | 18,175                              | 615,078              | 539,878              | 93,375                              |
| Payroll                              | 51,307                              | 7,213,254            | 7,207,723            | 56,838                              |
| City Court Fees                      | -                                   | 8,557                | 8,332                | 225                                 |
| City Court Trust                     | -                                   | 50                   | 50                   | -                                   |
| <b>Totals</b>                        | <b>\$ 3,886,488</b>                 | <b>\$ 27,969,013</b> | <b>\$ 26,660,407</b> | <b>\$ 5,195,094</b>                 |

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

CITY OF BEECH GROVE  
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety, health and social services, culture and recreation, planning and zoning, wastewater and general administrative services.

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).

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 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.

CITY OF BEECH GROVE  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City 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 City 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.

Note 7. Subsequent Event

The City issued a Tax Anticipation Warrant for the General Fund on January 2, 2009, for \$4,970,000.

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

The City has entered into the following debt:

| Description of Debt                          | Ending<br>Principal<br>Balance | Principal and<br>Interest Due<br>Within One<br>Year |
|--|--------------------------------|---|
| <b>Governmental Activities:</b>              |                                |   |
| Capital leases:                              |                                |   |
| Dump Truck - 2006                            | \$ 21,512                      | \$ 8,534  |
| Street Sweeper - 2006                        | 90,148                         | 38,222  |
| Emergency Property Tax Loan - 2000           | 114,181                        | 87,877  |
| Bonds payable:                               |                                |   |
| General obligation bonds:                    |                                |   |
| 2002 Issue - City Equipment and Improvement  | 445,000                        | 97,295  |
| 2006 Issue - Public Safety                   | 750,000                        | 227,928   |
| Revenue bonds:                               |                                |   |
| 2005 Tax Incremental Funding - Redevelopment | 2,655,000                      | 286,796   |
| 2007 Tax Incremental Funding - Redevelopment | 2,980,000                      | 284,336   |
| <b>Total governmental activities debt</b>    | <b><u>\$ 7,055,841</u></b>     | <b><u>\$ 1,030,988</u></b>                          |
| <b>Business-type Activities:</b>             |                                |   |
| Wastewater Utility                           |                                |   |
| Capital leases:                              |                                |   |
| Trash Truck - 2006                           | \$ 9,415                       | \$ 53,271   |
| Trash Totes - 2006                           | 110,956                        | 62,803  |
| Front End Loader - 2008                      | 84,145                         | 23,124  |
| State Revolving Fund Loan                    | 1,668,427                      | Note 1  |
| Revenue bonds:                               |                                |   |
| Indianapolis DPW 1995                        | 102,945                        | 59,631  |
| 2005A Issue                                  | 829,102                        | 68,798  |
| <b>Total business-type activities debt:</b>  | <b><u>\$ 2,804,990</u></b>     | <b><u>\$ 267,627</u></b>                            |

Note 1 - The State Revolving Fund Loan was approved in 2004 for a total amount of \$1,880,898. As of December 31, 2008 the total amount of the loan has not been drawdown and a repayment schedule has not been finalized. The City began repayment of the principal amount as required by the loan agreement in January 2006.

CITY OF BEECH GROVE  
EXAMINATION RESULTS AND COMMENTS

ANNUAL REPORT

The 2008 annual report was not filed. A similar comment appeared in the prior Report B32479.

IC 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 . . ."

LIST OF EMPLOYEES NOT FILED WITH COUNTY TREASURER

A list of employees was not certified to the County Treasurer for 2008.

IC 6-1.1-22-14(a) states in part:

"On or before June 1 and December 1 of each year . . . the disbursing officer of each political subdivision . . . shall certify the names and addresses of each person who has money due from the political subdivision to the treasurer of each county in which the political subdivision is located."

CERTIFIED REPORT NOT FILED

The City did not file a Certified Report of Names, Addresses, Duties and Compensation of Public Employees (Form 100-R) with the State Board of Accounts for the year 2008.

IC 5-11-13-1 states in part:

"Every state, county, city, town, township, or school official . . . 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 addresses of each and all officers, employees, and agents . . . 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."

MILEAGE REIMBURSEMENT (Applies to Police Department)

Police Department employees were reimbursed for mileage without filing Mileage Claim, General Form 101. Mileage and travel expenses less than \$50 were reimbursed directly to employees from petty cash and did not go through the proper accounts payable disbursement procedures.

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)

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF BEECH GROVE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

CITY EXPENSES PAID FROM INCORRECT FUNDS

The expenditures tested indicated that some expenses of the City's General Fund were paid by other funds. Specifically, the following funds paid for General Fund expenditures: RDAF-2005 Bond Capital, Motor Vehicle Highway, and Local Road and Street. Expenditures include Christmas decorations, park bench (\$2,051), Spring banners (\$2,970), and festival expenses for equipment rental (\$364).

Disbursements should be paid from properly authorized line items. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

UTILITY OPERATING FUNDS USED FOR CITY EXPENSES

The officials of the Wastewater Utility used Operating Funds to pay for expenses related to the City including road salt, mower repairs and winterization of an irrigation system for a total amount of \$43,472.

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner.

Establishment of a Cash Reserve Fund permits transfer of surplus utility funds to the city or town general fund. After appropriation, such transferred funds may then be used for any legal general fund purpose. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ERRORS ON CLAIMS

The following deficiencies were noted on claims during the examination period:

- (1) Claims were not always adequately itemized or supported by detailed documentation. Payments were sometimes made from photocopied bills and receipts and non-itemized credit card slips were used as documentation.
- (2) All claims did not have applicable Board approval. Two payments reviewed could not be traced to a signed Accounts Payable Voucher Register (Register) and one instance was noted where a voucher on the Register had been approved in a reduced amount by the Board, but the original voucher amount was paid in full.
- (3) Some of the claims or invoices tested were not accompanied by evidence in support of the receipt of goods or services.
- (4) The fiscal officer did not always certify that the invoice or bill was true and correct. No signature was found on the Accounts Payable Voucher Register or the accounts payable voucher itself for all but one payment tested.

CITY OF BEECH GROVE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

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."

TIMELY RECORDKEEPING

The City made expenditure reclassifications in May 2009 for the calendar year 2008. The total amount reclassified was \$83,035. No approval by the Board of Works, Board of Sanitation or by the City Council was presented for 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)

CONDITION OF RECORDS

The following deficiencies, relating to the recordkeeping were present during our period of examination:

- (1) Financial records presented for examination and the supporting documentation of loan payment activity for the Revolving Loan Fund were not in agreement. The revenue per the Detail form Revenue and Budget History report was \$842 more than the total of all payments listed on the supporting documentation.
- (2) Items listed on the outstanding check lists for 2008 included subtotals of claims that were duplicates of other items on the list.
- (3) Receipts and disbursements related to the Tax Anticipation Refunding Warrants (General Fund) Series 2008 were not recorded in the unit's records.
- (4) Minutes of the Redevelopment Commission, as presented, did not include all meetings.

CITY OF BEECH GROVE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

- (5) Bank accounts for the months of January and February of 2008 were not reconciled until April 2008. The December bank reconciliation was not completed until July 2009.
- (6) Capital asset records for the City and the Utility were not presented for examination.
- (7) Some transactions were recorded as "negative" receipts and disbursements.

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)

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."

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)

FINANCE CHARGES

The City incurred, and subsequently paid, finance charges for the delinquent payment of vendor invoices during 2008.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. 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)

OVERDRAWN CASH BALANCES

The cash balance of the Motor Vehicle Highway Fund was overdrawn by \$134,193 on December 31, 2008. A similar comment appeared in prior Report B32479.

The following funds had negative cash balances during 2008: General, Health-Retirees, Fire Pension, and Police Pension.

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)

SERVICE AND TIME RECORDS

Employee time, attendance, or service records were not maintained and presented for examination for all officers and employees. In addition, the Police Department is using an internal form to keep track of employee leave times rather than using the Employee's Service Record (General Payroll Form 99A). A similar comment appeared in prior Report B32479.

CITY OF BEECH GROVE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

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)

SICK LEAVE POLICY

Not all employees are in compliance with the City's sick leave policy. Sick leave may be accumulated to a maximum of 1,440 hours, per the City Personnel Manual. One employee tested had a sick leave balance of 2,035 hours, which exceeds the maximum by 595 hours.

The City Personnel Manual states in part:

"ARTICLE IX. SICK LEAVE, SECTION 1. Accumulation Full time employees shall be granted three-fourths (3/4) of a day sick leave credit per month and shall have the right to accumulate unused sick leave up to a maximum of 1440 hours (180 days) . . . Employees who were hired prior to June 1, 1979 shall be granted credit for sick leave days retroactive to their actual date of employment, subject to the maximum accumulation of 1440 hours (180 days)."

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)

OPTICAL IMAGES OF WARRANTS

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead provided an optical image of the front side of the checks for 2008.

IC 5-15-6-3 concerning optical imaging of checks, states in part:

"(a) . . . 'original records' . . . includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

Further, IC 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise: and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

CITY OF BEECH GROVE  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

CAPITAL ASSET RECORDS - UTILITY

The 2008 capital asset records for the Wastewater Utility were 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)

CAPITAL ASSET RECORDS - CITY

Capital asset records for City were 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)

CITY OF BEECH GROVE  
EXIT CONFERENCE

The contents of this report were discussed on November 4, 2009, with Sarah M. Kincaid, Clerk-Treasurer; and Donald J. Wright, Major. The official response has been made a part of this report and may be found on pages 16 through 26.

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November 19, 2009

State Board of Accounts  
State of Indiana  
302 West Washington Street, Room E418  
Indianapolis, Indiana 46204

**RE: Response to SBA Audit for Calendar Year 2008  
City of Beech Grove, Indiana**

Ladies and Gentlemen:

This letter will serve as my response to the draft Audit Report which we recently received for the above referenced audit period. It also serves to supplement my discussions with Auditors, Alan Weber and Mel Jarrett, that occurred on November 4, 2009 and throughout the audit process. We appreciate your consideration of this response and its inclusion in your final report. This response will be organized by category as listed in the Audit Report.

1. **Annual Report**

The Audit Report provides in part that “the 2008 annual report was not filed”.

**Response:**

The Annual Report has now been completed and filed as of November 19, 2009. A file marked copy of the 2008 Annual Report is attached hereto as Exhibit “A”. The delay in filing the Annual Report resulted in part from the delay in the City’s receipt of its certified budget from the Department of Local Government Finance and in the City’s receipt of revenue disbursements for the police, fire and pension funds and the motor vehicle highway fund. It was my good faith belief that in order to be able to accurately complete the 2008 Annual Report that both the certified budget and the revenue disbursements needed to be received by the City. In the future, I will communicate directly with the State Board of Accounts if I believe there are any issues that may delay the completion of the Annual Report to coordinate a formal extension of time to file and/or to coordinate multiple filings as delinquent information is received.

2. **List of Employees Not Filed with County Treasurer**

The Audit Report provides in part that “a list of employees was not certified to the County Treasurer for 2008”.

**Response:**

The required list of employees has now been filed as of November 16, 2009. E-mail confirmation of that filing is attached hereto as Exhibit “B”. Reports will be filed in a timely manner in the future.

3. **Certified Report Not Filed**

The Audit Report provides in part that “the City did not file a certified report of compensation of officers and employees for the year 2008”.

**Response:**

The required certified report has now been filed as of November 19, 2009. A file marked copy of the report is attached hereto as Exhibit “C”. Reports will be filed in a timely manner in the future.

4. **Mileage Reimbursement**

The Audit Report provides in part that “Police Department employees were reimbursed for mileage without filing Mileage Claim, General Form 101”, and that “mileage and travel expenses less than \$50 were reimbursed directly to Police Department employees from petty cash and did not go through the proper accounts payable disbursement procedures”.

**Response:**

New procedures have been implemented by my office to ensure compliance on this issue immediately. As part of that, I will meet with the Police Chief, the Deputy Police Chief, and the Assistant to the Police Chief on November 20, 2009 at which time we will implement a new process and procedure to ensure that the required process and form completion is used for every mileage and travel reimbursements. Reimbursements will now only be issued upon the receipt of Mileage Claim General Form 101, proper Purchase Order forms, and Board approval. In addition, petty cash will not be used to reimburse expenses under \$50. I have also issued a Memorandum to the Police Department outlining

and confirming the process and procedures that must be followed. A copy of the Memorandum is attached hereto as Exhibit "D".

5. **City Expenses Paid from Incorrect Funds**

The Audit Report provides in part that "the expenditures tested indicated that some expenses of the City's General Fund were paid by other funds" and that "specifically, the following funds paid for General Fund expenditures: RDAF 2005 Bond Capital, Motor Vehicle Highway, and the Local Road and Street and that expenditures include Christmas decorations, park bench (\$2,051), Spring banners (\$2,970) and festival expenses for equipment rental (\$364)".

**Response:**

It is my good faith belief that these expenses were correctly paid for from funds other than the General Fund. However, in light of my discussions with Mr. Weber and Mr. Jarrett during the audit process, we will review these expenses further in order to determine if they should be reclassified. Assuming that is the case, a Resolution will be presented to the Board of Public Works and Safety for approval of the reclassification of the expenses and reimbursement to the appropriate funds. I have made further inquiry with Mr. Weber regarding how these expenses should be reclassified and am waiting for further direction from him to ensure compliance. I am attaching a copy of my November 17, 2009, e-mail communication to Mr. Weber regarding this matter which is attached hereto as Exhibit "E". I will update this response further once I have the requested information from Mr. Weber and once these issues have been addressed.

6. **Utility Operating Fund Used For City Expenses**

The Audit Report provides in part that the "officials of the Wastewater Utility used Operating Funds to pay for expenses related to the City including road salt, mower repairs and winterization of an irrigation system for a total amount of \$43,473".

**Response:**

Since meeting with Mr. Jarrett and Mr. Weber, we have reviewed these expenses and made a determination that claims in the amount of \$28,833.51 that were approved for the purchase of road salt (the "Salt Payment") for the City can be paid from the General Fund. Therefore, the issue was presented to the Board of Public Works and Safety on November 18, 2009 and the Board authorized me to "take any and all action necessary to facilitate the reimbursement of the "Salt Payment from the 202 Fund to the Utility Fund" and it ratified "any action taken

in that regard in accordance with I.C. 36-1-4-16". A copy of the Board's Resolution is attached hereto as Exhibit "F". With regard to the remaining balance of \$14,639.49, it is my good faith belief that these expenses were properly allocated to the appropriate funds as approved by the Board. However, a continued review and analysis of these remaining claims will be completed to ensure compliance and to determine, what, if an, additional action is needed from the Board of Public Works and Safety.

7. **Errors on Claims**

The Audit Report provides in part that "the following deficiencies were noted on claims during the examination period:

- (a) Claims were not always adequately itemized or supported by detailed documentation. Payments were sometimes made from photocopied bills and receipts and non-itemized credit card slips were used as documentation.
- (b) All claims did not have applicable Board approval. Two payments reviewed could not be traced to a signed Accounts Payable Voucher Register (Register) and one instance was noted where the Register had been approved in a reduced amount by the Board, but the original amount was paid in full.
- (c) Some of the claims or invoices tested did not have evidence to support receipt of goods or services.
- (d) The fiscal officer did not always certify that the invoice or bill is true and correct. No signature was found on the Accounts Payable Voucher Register on the accounts payable voucher itself for all but one payment tested."

**Response:**

- (a) Many bills received by the City are via email or fax and in copy format. Proper procedures to mark bills as received as a "copy" have been implemented to address these instances and non-itemized credit card slips will no longer be accepted. I have met with my staff and updated them on this process. In addition, I have issued a Memorandum outlining this process and procedure. A copy of the Memorandum is attached hereto as Exhibit "G".
- (b) I am reviewing all claims for 2008 to determine what claims may need additional Board review and approval. Once that process is completed, I will present these claims to the appropriate Board for approval and ratification in accordance with I.C. 36-1-4-16. It is my belief that the

Board of Public Works and Safety had knowledge of all purchases that have been made even though there may be an error in the claims approval process.

- (c) All claims will be verified for signature of receipt prior to being placed on the docket for approval by the appropriate Board. It is my understanding from discussions with Mr. Weber that this signature can come from either the department head or the person that verified the receipt of the goods or services. I have issued a Memorandum to all department heads outlining this process and procedure to ensure compliance. A copy of the Memorandum is attached hereto as Exhibit "G".
- (d) All claims dockets for 2008 have been verified and executed by me.

8. **Timely Recordkeeping**

The Audit Report provides in part that "the City made expenditure reclassifications in May 2009 for the calendar year 2008," that "the total amount reclassified was \$83,035," and that "no approval by the Board of Works, Board of Sanitation or by the City Council was presented for examination."

**Response:**

In light of the fact that the City did not timely receive its certified budget, we made certain adjustments in the 2008 budget. I believe that we acted in good faith in terms of reclassifying expenses as determined necessary from an operational perspective based on budget needs. In addition, in order to ensure compliance, all of the reclassifications identified by the Auditors in the amount of \$83,035.22 were presented to the Board of Public Works and Safety for further review and approval where required. On November 18, 2009, the Board adopted a Resolution in which it "approves and ratifies the reclassification and payment" of these claims, "directs the Clerk-Treasurer to take any and all action necessary to effectuate such reclassification and payment" and "ratifies any action taken in that regard in accordance with I.C. 36-1-4-16". A copy of the Board's Resolution is attached hereto as Exhibit "H".

As an additional note, It is my understanding from discussions with the Mayor that this practice of reclassification has been performed in the past without comment or concern from the State Board of Accounts so we have relied on past practices and audits in this instance.

9. **Condition of Records**

The Audit Report provides in part that “the following deficiencies, relating to the recordkeeping were present during the examination period:

- (1) Financial records presented for examination and the supporting documentation of loan payment activity for the Revolving Loan Fund were not in agreement. The revenue per the Detail form Revenue and Budget History Report was \$842 more than the total of all payments listed on the supporting documentation.
- (2) Items listed on the outstanding check lists for 2008 included subtotals of claims that were duplicates of other items on the list.
- (3) Receipts and disbursements related to the Tax Anticipation Refunding Warrants (General Fund) Series 2008 were not recorded in the unit’s records.
- (4) Minutes of the Redevelopment Commission as presented did not include all meetings.
- (5) Bank accounts for the months of January, February of 2008 were not reconciled until April 2008. The December bank reconciliation was not completed until July 2009.
- (6) Capital asset records for the City and the Utility were not presented for examination.
- (7) Some transactions were recorded as “negative” receipts and disbursements.”

**Response:**

- (1) A City employee made a mistake when she recorded payment in the City’s accounting Keystone software but failed to properly record it to the loan payment spreadsheet. This employee was disciplined and re-trained on payments and recordkeeping procedures. Internal audits of fund and loan spreadsheets have been performed by me in 2009 at varying intervals to ensure such errors do not continue and that we are in compliance on this issue.
- (2) Outstanding check lists included claims that had been entered but never approved, which related to several meetings of the RDC that had been cancelled after claims had been entered. This procedure has been corrected and any claims not considered in a month are deleted or re-dated for the following meeting. All such checks noted in this report were corrected in 2009.

- (3) While documentation was maintained of such transactions in 2008, details on these transactions were not entered until 2009. All entries have now been completed.
- (4) It is my good faith belief that minutes of all of the RDC meetings have been completed by the RDC Secretary Mike DiNapoli. I am in the processing of confirming this with Mr. DiNapoli. In the event that any minutes have not been completed, I will recreate those minutes from the recordings of such meetings. I have also communicated with the RDC President, Terry Dilk, to ensure that the process of meeting minute completion and approval is being done in order to facilitate timely completion and approval of minutes in the future.
- (5) While bank reconciliations were delayed in 2008, they are current for 2009 and will continue to be completed on a monthly basis from this point forward.
- (6) Capital Asset records are kept on file in my office in the Keystone Assets software program, but are not on state prescribed forms. Such records will be transferred to the approved forms by November 25, 2009 and a copy will be provided to the State Board of Accounts as a supplement to this Audit Response.
- (7) We used a "negative receipt" procedure only as a means of correcting accounting errors related to returned checks and account transfers related to ACH deposits into the Corporate Account from other agencies. During the audit this procedure was noted as incorrect by the auditor who provided us with alternatives to consider. The appropriate new processes have been put into place where applicable and as directed by the auditor.

As an additional note and as part of the audit, the auditor presented and discussed the option of combining some of the City's bank accounts to reduce the amount of transfers needed. I am in the process of reviewing these options to determine what may work best from an operational perspective for the City.

10. **Finance Charges**

The Audit Report provides in part that "the City incurred, and subsequently paid, financial charges for the delinquent payment of vendor invoices during 2008".

**Response:**

I take all reasonable measures to ensure that invoices are paid promptly after they are approved by the appropriate Board or Commission. In 2008, there were instances when several boards cancelled meetings, due to quorum and

scheduling problems, that included as part of the Agenda an approval of claims that needed to be paid. The RDC specifically had cancelled several months of meetings in a row causing some claims to become delinquent. In the event that a meeting is cancelled it is my policy to pay any bills that legally can be paid (such as utilities and contracted services where a contract has been approved) without prior Board approval. As part of an effort to ensure that claims are timely and properly approved to avoid any future financial charges, I intend to communicate further with all of the approving Board or Commission Presidents to further explain this process and the importance of the timeliness of Board review, action and approval on all claims.

11. **Overdrawn Cash Balances**

The Audit Report provides in part that “the cash balance of the Motor Vehicle Highway Fund, General Fund, Health Retirees Fund, Fire Pension Fund, and Police Pension Fund were overdrawn during 2008”.

**Response:**

All negative cash balances (with regard to health retirees) corresponded directly to money that was expected but not timely received by the City from other agencies related to property taxes and pension relief. The City was forced to borrow more Tax Anticipation Warrant funds increasing interest expense due to lack of timely distributions. In the future such cash flow issues will be resolved with temporary loans, tax warrants, and other such methods as prescribed by the State Board of Accounts. The health retiree fund was noted with errors by me and corrective actions have been taken to ensure proper balances. In addition, some retirees were delinquent with monthly payments to cover their portion of health premiums. These retirees were provided notice of such delinquencies and given 30 days to bring their account current. Records of such payments are maintained monthly and the above practice is used to ensure timely payment of premiums.

12. **Service and Time Records**

The Audit Report provides in part that “employee time, attendance, or service records were not maintained and presented for examination for all officers and employees and that proper recordkeeping forms are not being utilized”.

**Response:**

The City has taken corrective action to ensure compliance on this issue and has corrected all records for 2008. The timekeeping system Kronos was

implemented in 2009 to specifically address these issues. Kronos will be used to maintain and keep all leave records in addition to daily timekeeping.

13. **Sick Leave Policy**

The Audit Report provides in part that not all employees are in compliance with the City's sick leave policy.

**Response:**

The employee in question retired in 2009 and was paid for accumulated sick hours in accordance with the Employee Handbook prescribed policy of no more than 1,440 hours. Such additional hours were noted only for record, not for use or payment.

14. **Optical Images of Warrants**

The Audit Report provides in part that the financial institution did not return the actual cancelled checks with the monthly bank statements, but instead provided an optical image of the front side of the checks for 2008.

**Response:**

In the past the city has used the bank statement to show optical images of checks. In 2008 and 2009 images not appearing on the bank statement were accessed, if necessary, by the Clerk Treasurer from the bank branch manager. Such information was received in a timely manner. However, to correct this procedure in accordance with the State Board of Accounts prescribed manner, a CD-ROM of all optical data for all accounts has been added to the services provided by the City's bank and will be sent to the city on a monthly basis.

15. **Capital Asset Records – Utilities**

The Audit Report provides in part that "the 2008 Capital Asset records for the Wastewater Utility were not presented for examination".

**Response:**

I maintain copies of the 2008 Capital Asset records for the Wastewater Utility in my office, but the records have not been entered on the State Board of Accounts ledger form. I will be correcting these records to ensure they are on the proper forms. I intend to have this process completed by November 25, 2009 and

will provide a follow-up communication to your office at that time to ensure compliance.

16. **Capital Asset Records – City**

The Audit Report provides in part that “the Capital Asset Records for City were not presented for examination”.

**Response:**

I maintain copies of the 2008 Capital Asset records for the City in my office, but the records have not been entered on the State Board of Accounts ledger form. I will be correcting these records to ensure they are on the proper forms. I intend to have this process completed by November 25, 2009 and will provide a follow-up communication to your office at that time to ensure compliance.

I realize that there are issues that need to be addressed by me as the Clerk Treasurer to ensure compliance with all of legal and State Board of Accounts requirements. This audit clearly represents my first year as a person taking on a job with many responsibilities and little to no training. The learning curve for this position is steep. I am fully capable of performing this position. I truly look at this report as a learning opportunity and progress report that allows me to move forward with a deeper understanding of areas that must be addressed and corrected from this point forward. I take pride in my position and enjoy the opportunity I am afforded to serve the City of Beech Grove.

I intend to take this report and my discussions with Mr. Jarrett and Mr. Weber as a learning tool and an opportunity to improve performance and ensure compliance on my responsibilities for 2009 and the remainder of my term. I also plan to seek out other available resources that may be beneficial in successfully performing my responsibilities as the Clerk Treasurer for the City of Beech Grove. I sincerely appreciate the opportunity to serve as Clerk Treasurer and look forward to the completion of my term utilizing the information from this report to better serve the citizens of Beech Grove.

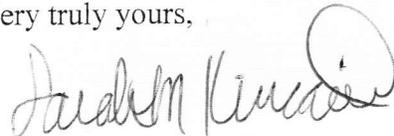
November 19, 2009

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I believe that I have acted in good faith at all times in the performance of my duties and obligations as the Clerk Treasurer with the best interests of the taxpayers of the City in mind.

At this point, I will continue to work with my staff, the City administration, and other elected and appointed officials to move toward full legal compliance and reporting responsibility for the City of Beech Grove. If you should have any questions, feel free to contact me at your convenience.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Sarah M. Kincaid". The signature is written in dark ink and is positioned above the typed name.

Sarah M. Kincaid, Clerk-Treasurer  
City of Beech Grove, Indiana

SMK:akk  
Attachments