

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

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



FILED
03/03/2010

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Examination Results and Comments:	
Certified Report Not Filed	4
Budget Not Properly Advertised	4
Public Records Retention	4
Annual Report Not Filed	5
Board Minutes.....	5
Sales Tax.....	5
Supporting Documentation	5-6
Penalties, Interest, and Other Charges - Vendors	6
Fund Sources and Uses	6-7
Prescribed Forms	7
Official Bonds.....	7
Penalties, Interest and Other Charges – Internal Revenue Service (IRS).....	7-8
Bank Account Reconciliations	8
Errors on W2's	8
Capital Asset Records	9
Financial Report Opinion Modification.....	9
Malfeasance, Misfeasance, or Nonfeasance	9
Official's Bond Coverage	9
Exit Conferences.....	10
Officials' Response.....	11-14
Summary	15

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Teresa G. Matthews	01-01-08 to 08-17-08
	Catherine E. Hildebrand	08-18-08 to 12-31-11
Mayor	Hon. Robin Thoman, DDS	01-01-08 to 12-31-11
President of the City Council	Gregory C. Dant	01-01-08 to 12-31-08
	Helena Rose Harrison	01-01-09 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 SOUTHPORT, MARION COUNTY, INDIANA

We have examined the financial information presented herein of the City of Southport (City), for the period of January 1, 2008 to December 31, 2008. The City's management is responsible for the financial information presented herein.

The financial records presented for examination for the year ended December 31, 2008, were incomplete and not reflective of the activity of the City's funds. The records presented did not provide sufficient information to establish receipts, disbursements, ending balances, or the accuracy or correctness of the transactions due to the failure to post or correctly post all transactions. Accordingly, the financial information for the year ended December 31, 2008, is not presented. As a result, the validity and accountability of cash and investments as of December 31, 2008, could not be established. However, we did examine available records to the extent possible for compliance with State statutes and with the Accounting and Uniform Compliance Guidelines Manual for Cities and Towns published by the State Board of Accounts. The results of this examination are stated in the Examination Results and Comments.

Because the City was not able to provide corroborating evidence in support of the financial information, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on whether the financial information referred to above presents fairly, in all material respects, the cash transactions of the City of Southport 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.

STATE BOARD OF ACCOUNTS

January 21, 2010

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS

CERTIFIED REPORT NOT FILED

The City did not timely file a certified report of compensation of officers and employees (Form 100-R or its equivalent) 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."

BUDGET NOT PROPERLY ADVERTISED

The City did not have a Department of Local Government and Finance (DLGF) approved budget. The City Council approved a budget; however, the proper advertising did not take place and the budget was not approved by DLGF.

The law provides for a public hearing and for a ten day notice by publication advising the taxpayers of such public hearing. Statutes relating to the budget require two insertions be made at least one week apart, with the second publication made at least three days before such public hearing. [IC 6-1.1-17-3; IC 6-1.1-17-5] IC 5-3-1-4(a) requires publication in two newspapers published in the political subdivision. IC 5-3-1-4(c) requires: that if there is only one newspaper published in the municipality, then publication in that newspaper alone is sufficient. If no newspaper is published in the municipality then publication shall be made in a newspaper published in the county in which the municipality is located and that circulates within the municipality. The notice shall be posted (1) at or near the city or town hall; or (2) at the: (A) public building where the governing body of the respective city or town meets; or (B) post office in the municipality (or at the bank if there is no post office); if the municipality does not have a city or town hall. If there are questions relating to proper procedure for publishing the municipality's budget or additional appropriations, they should be directed to Director of Cities and Towns, Department of Local Government Finance, Indiana Government Center North, 100 N. Senate Avenue, Room N1058, Indianapolis, IN, 46204, telephone number 232-3773, area code 317. (Accounting and Uniform Guidelines Manual for Cities and Towns, Chapter 1)

PUBLIC RECORDS RETENTION

Cancelled checks or optically imaged checks were not presented for examination for March and April 2008.

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."

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

ANNUAL REPORT NOT FILED

The annual financial report was not filed or published for 2008.

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 . . ."

BOARD MINUTES

The minutes for the July 2008 meeting of the governing body were not available for examination.

IC 5-14-1.5-4 states in part:

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

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes taken, by individual members if there is a roll call.
- (5) Any additional information required under Indiana Code 5-1.5-2-2.5."

SALES TAX

Catherine E. Hildebrand, Clerk-Treasurer, paid sales tax on purchases and reimbursements on 40% of the claims tested during her term in office in 2008. These payments of sales tax amounted to \$20.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPORTING DOCUMENTATION

Several payments were observed which were not supported by adequate documentation, such as original receipts, invoices, and other public records. A review of disbursements for the year 2008 identified twenty disbursements that were made with no accounts payable vouchers presented to support the payment. Fourteen such payments totaling \$8,706, occurred during Teresa G. Matthews' term as Clerk-Treasurer. Six such payments, totaling \$6,416, were made during Catherine E. Hildebrand's term as Clerk-Treasurer. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Further, of the twenty-five accounts payable vouchers examined in the testing performed, nine vouchers were paid amounts in excess of the supporting documentation attached to the vouchers. Three of the nine vouchers were paid during Teresa G. Matthews' term, for an excess payment of \$1,207, and six were paid during Catherine Hildebrand's term, for an excess payment of \$2,769.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PENALTIES, INTEREST, AND OTHER CHARGES - VENDORS

In some cases, amounts payable to vendors and other suppliers of goods and services were not being paid until several months after the invoice dates. Not every vendor charged penalties or late fees. However, penalties were paid by both clerk-treasurers. Of the twenty-five claims tested, Teresa G. Matthews paid a credit card vendor late two times. This resulted in charges as follows: late fees totaling \$29 and finance charges of \$25.86, totaling \$54.86. Catherine E. Hildebrand paid the same credit card vendor late, resulting in a \$29 late fee and \$2.73 in finance charges.

We have requested Teresa G. Matthews, the former Clerk-Treasurer, to reimburse the City \$54.86 for late charges, penalties, and interest paid between January 1, 2008 and August 17, 2008. (See Summary, page 15)

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)

FUND SOURCES AND USES

Monies were disbursed from funds inappropriately for three claims tested in 2008 as follows:

During Teresa G. Matthews' term in office:

1. Police car maintenance was paid from the Park and Recreation Fund in the amount of \$282.85.
2. A private citizen was reimbursed \$400 from the Motor Vehicle Highway Fund for flood damages.

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

During Catherine E. Hildebrand's term in office:

1. Phone service for the City of Southport was paid from the Park and Recreation Fund in the amount of \$766.80.

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)

PRESCRIBED FORMS

Checks were not issued in numerical order. In addition, some unused, out-of-sequence checks were found loose in the records and had not been defaced.

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)

OFFICIAL BONDS

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

Teresa G. Matthews, Clerk-Treasurer - January 1, 2008 to January 1, 2009;

Catherine E. Hildebrand, Clerk-Treasurer - January 1, 2009 until successor is duly qualified.

No bond was purchased or filed for Catherine E. Hildebrand, Clerk-Treasurer, for the period August 18, 2008 to December 31, 2008.

IC 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder. . . ."

PENALTIES, INTEREST, AND OTHER CHARGES - INTERNAL REVENUE SERVICE (IRS)

The IRS billed the City \$401.34 for an unpaid assessed balance for the tax quarter ending September 30, 2007. Accrued interest of \$7.86 was also charged, for a total of \$409.20. No record can be found of this amount being paid by the City or the assessment being adjusted by the IRS.

Penalties and interest totaling \$486.42 was paid to the IRS on October 10, 2008, for the tax period quarter ending December 31, 2007.

We have requested Teresa G. Matthews, former Clerk-Treasurer, to reimburse the City \$486.42 for late charges, penalties, and interest paid in 2008, but incurred during her term of office. (See Summary, page 15)

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.

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

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)

BANK ACCOUNT RECONCILIATIONS

Monthly depository reconciliations were not done in the proper form and were incorrect. The reconciliations performed were actually reconciliations of the bank activity, not a reconciliation of the bank balance to the ledger balance. The reconciliation as of December 31, 2008, was presented in the proper form, but was incorrect. There were known errors in the outstanding checklist used to complete the reconciliation on this date. A similar comment appeared in the prior Report 30077.

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)

ERRORS ON W2'S

Errors were made in reporting wages to the Internal Revenue Service (IRS). The wages of one employee were under reported in the amount of \$4,581. A second employee's wages were under reported in the amount of \$900. In addition, the withholding taxes of the second employee were under reported, in total, by \$192.

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)

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)

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

CAPITAL ASSET RECORDS

The City has attempted to complete and maintain the capital asset records; however, inventories are incomplete. Some infrastructure is not accounted for and additions and deletions are not identified.

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)

FINANCIAL REPORT OPINION MODIFICATION

The financial records for the City were maintained on two different accounting systems in 2008. Catherine E. Hildebrand, current Clerk-Treasurer, entered all the fiscal information for 2008 into the new accounting system. However, information from the new accounting system was not made available for examination. No financial reports were provided from the old accounting system for the month of December 2008. Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Accountant's Report for the financial statements.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

MALFEASANCE, MISFEASANCE, OR NONFEASANCE

Theresa G. Matthews and Catherine E. Hildebrand, while serving in the position of Clerk-Treasurer for the City of Southport in 2008, from the information presented for examination, have failed to perform some of the duties of Clerk-Treasurer's office. The Clerk-Treasurer's duties, which were not performed were: filing the required annual financial report; filing a certified compensation report; advertising the budget properly; maintaining financial records suitable for examination; properly completing accurate monthly bank reconciliations; providing evidence to support expenditures; maintaining a complete record of the City Common Council Board minutes; and obtaining and/or recording official bonds at the County Recorder's Office.

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 City and Towns, Chapter 7)

OFFICIAL'S BOND COVERAGE

Teresa G. Matthews, Clerk-Treasurer of the City of Southport obtained a surety bond from The Ohio Casualty Insurance Company with a limit of coverage in the amount of \$25,000 covering the dates of January 1, 2008 to January 1, 2009.

CITY OF SOUTHPORT
EXIT CONFERENCES

The contents of this report were discussed on January 4, 2010, with Teresa G. Matthews, former Clerk-Treasurer. The official response has been made a part of this report and may be found on page 11.

The contents of this report were discussed on January 21, 2010, with Catherine E. Hildebrand, Clerk-Treasurer; Susan Schmoll, City Council member; James Cooney, City Council member; Joseph Maguire, Attorney; and Nichole Franklin, Consultant. The official response has been made a part of this report and may be found on pages 11 through 14.

January 6, 2010

To: State Board of Accounts
302 W. Washington Street
Room E 418
Att: Official Response
Indianapolis, IN 46204-2765

From: Teresa Matthews
Former Clerk-Treasurer
City of Southport

OFFICAL RESPONSE

I am responding to a few items on the 2008 City of Southport Exit Conference.

BUDGET NOT PROPERLY ADVERTISED

Before I resigned my position as Clerk Treasurer in July 2008 I gave Mayor Thoman a rough draft of the 2009 budget. He advised me that he and Jeff Peters already had the budget prepared and showed me a copy of it. I advised him that it was not on the proper budget form and he said he would take care of the budget from that point forward. So under the direction of the Mayor I went no further on the 2008 budget.

PUBLIC RETENTION

When I left office all bank statements were in a box marked 2008 Bank Statements in the cabinet in the Clerk-Treasurer's office. When I left there all back statements were in that box.

PENATLIES, INTEREST & OTHER CHARGES

At the exit conference on January 4, 2010 I gave Al Weber and Mel Jarrett a check for \$541.28 to cover the cost of the IRS penalty and the Office Depot late fee & finance charge.

FUND SOURCES AND USES

Item #2 I paid this resident \$400.00 from the M.V.H. Fund under the direction of Mayor Thoman.



28 January 2010

State Board of Accounts
302 W Washington Street
Room E 418
Indianapolis, IN 46204-2765

Re: OFFICIAL RESPONSE

I knew there would be issues and mistakes during 2008 due to the circumstances of which I was appointed to this position. The person I replaced left under hostile conditions due to her own actions.

The office was left in poor condition with records not properly kept and filed. There was hostility toward me for accepting the position and I learned early on that I was not trained properly. The hardware and software were antiquated and there was no support in place to update either.

Since becoming CT, I have joined and attended educational classes with the ILMCT. I hope this allows me to learn all aspects and expectations for the Clerk-Treasurer position. I utilize the league's list-serve to assist me. I do hold an AS in Accounting and am pursuing a BA in Business Administration, currently.

Thank you,

Cathy Hildebrand
Clerk-Treasurer
City of Southport

February 5, 2010

State of Indiana Board of Accounts

Attn: Alan Weber

OFFICIAL RESPONSE

302 W. Washington St. Room E 418

Indianapolis IN 46204-2765

Re: City of Southport Clerk Treasurer Exit Interview

Dear Mr. Weber:

This letter is the City of Southport City Council's response to the Clerk Treasurer's exit interview with the State Board of Accounts.

The Southport City Council would like to comment on the issues presented in the exit interview report.

- We are extremely disappointed and alarmed at the issues raised in the exit interview report. The fact that the State Board of Accounts was unable to render an opinion regarding the audit is indicative of the Clerk Treasurer's inability to perform to the duties of her job. For example, the advertising for the city budget was not timely or accurate.
- The security the Clerk Treasurer provided for bank account checks was minimal or nonexistent. Security for the city's bank documents must be a priority in the future. Additionally, the checks were not used in proper sequence.
- Documents requested by the State Board of Accounts were either not readily available or did not exist. Supporting documentation for payments was lax.
- The city employs an accountant to assist with bank reconciliations. Notwithstanding the accountant's assistance, the State Board of Accounts noted that bank reconciliations were not completed in the proper form and were incorrect. It is with regret that the Council has noted that there are no financial reports available for the calendar year 2008. It is likely that the lack of financial reporting for 2008 will negatively impact the city's interest rate for the general obligation bond and the tax warrant.
- The report states that Ms. Hildebrand was not properly bonded for 2008 to conduct the financial affairs of the city. Ms. Hildebrand's failure to follow procedure could have resulted in additional liability for the city.

It is apparent to us that the Clerk Treasurer is unable to perform the duties of her job. As a result of Ms. Hildebrand being unable to perform her job we have concerns about the

upcoming State Board of Accounts audit for 2009. We will follow up with the Clerk Treasurer to provide any needed guidance and assistance regarding the performance of her duties on behalf of the City of Southport.

Respectfully Submitted,

Susan Schmoll

James Cooney

CITY OF SOUTHPORT
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Teresa G. Matthews, former Clerk-Treasurer:			
Penalties, Interest, and Other Charges - Vendors, page 6	\$ 54.86	\$ 54.86	\$ -
Penalties, Interest and Other Charges - Internal Revenue Service (IRS), pages 7 and 8	<u>486.42</u>	<u>486.42</u>	<u>-</u>
Totals	<u>\$ 541.28</u>	<u>\$ 541.28</u>	<u>\$ -</u>