

B37744

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

EXAMINATION REPORT
OF
CITY OF JONESBORO
GRANT COUNTY, INDIANA
January 1, 2009 to December 31, 2009



FILED
11/08/2010

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Financial Information:	
Schedule of Receipts, Disbursements, and Cash and Investment Balances	4
Notes to Financial Information	5-6
Supplementary Information:	
Schedule of Long-Term Debt	7
Examination Results and Comments:	
Financial Report Opinion Modification.....	8
Condition of Records	8-9
Bank Account Reconciliations	9
Overdrawn Cash Balances.....	9
Supporting Documentation	10
Credit Cards.....	10-11
Investment Transactions	11
Customer Deposit Register	11
Incorrect Accounts Receivable Balances	11
Delinquent Wastewater Accounts.....	12
Ordinances and Resolutions	12
Capital Asset Records	12
Official Bond	13
Exit Conference.....	14

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Karen S. Owen	01-01-08 to 12-31-11
Mayor	Jay R. Akers	01-01-08 to 12-31-11
President of the Board of Public Works	Jay R. Akers	01-01-08 to 12-31-11
President of the Common Council	David L. Jernigan Leslie M. Orr	01-01-09 to 12-31-09 01-01-10 to 12-31-10



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF JONESBORO, GRANT COUNTY, INDIANA

We have examined the financial information presented herein of the City of Jonesboro (City), for the period of January 1, 2009 to December 31, 2009. The City's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Due to inaccurate and incomplete accounting records, we were unable to obtain sufficient, competent, evidential matter to support the receipts, disbursements, and cash and investment balances for the year 2009.

Since the City did not maintain accurate and complete records and we were not able to apply other examination procedures to satisfy ourselves as to the accuracy of receipts, disbursements, and cash and investment balances, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial information presented herein.

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

August 10, 2010

CITY OF JONESBORO
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, 2009

	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
Governmental Funds:				
General	\$ 102,839	\$ 413,723	\$ 405,560	\$ 111,002
Motor Vehicle Highway	56,693	81,110	62,257	75,546
Local Road and Street	10,227	15,254	18,339	7,142
Law Enforcement Continuing Education	1,679	1,720	2,731	668
Donation	2,503	39,615	37,846	4,272
Cumulative Capital Improvement	3,334	5,785	4,360	4,759
Cumulative Capital Development	8,553	6,064	7,902	6,715
Proprietary Funds:				
Water Utility - Operating	(393)	342,847	346,692	(4,238)
Water Utility - Bond and Interest	177,165	126,554	-	303,719
Water Utility - Depreciation	4,488	2,288	6,775	1
Water Utility - Customer Deposit	54,222	6,900	4,226	56,896
Water Utility - Tower Maintenance	3,197	10,416	4,340	9,273
Water Utility - Debt Reserve	92,516	19,640	-	112,156
Wastewater Utility - Operating	(7,896)	398,530	474,904	(84,270)
Wastewater Utility - Bond and Interest	64,871	95,812	78,659	82,024
Wastewater Utility - Depreciation	-	8,000	-	8,000
Wastewater Utility - Construction	37,937	161,632	39,323	160,246
Fiduciary Fund:				
Payroll	(36,139)	291,663	278,585	(23,061)
Totals	<u>\$ 575,796</u>	<u>\$ 2,027,553</u>	<u>\$ 1,772,499</u>	<u>\$ 830,850</u>

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

CITY OF JONESBORO
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, water, 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). 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.

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 JONESBORO
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.

CITY OF JONESBORO
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2009

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Capital leases:		
Police car	\$ 7,458	\$ 7,902
Backhoe	<u>10,507</u>	<u>8,118</u>
Total governmental activities debt	<u>\$ 17,965</u>	<u>\$ 16,020</u>
Business-type activities:		
Water Utility:		
Capital lease:		
Backhoe	\$ 1,986	\$ -
Loans payable:		
2001 State Revolving Fund Loan	386,500	40,027
2005 State Revolving Fund Loan	<u>1,334,966</u>	<u>102,585</u>
Total Water Utility	<u>1,723,452</u>	<u>142,612</u>
Wastewater Utility:		
Capital lease:		
Backhoe	7,178	4,059
Note payable	600,000	612,000
Revenue bonds:		
Refunding bonds of 1995	215,000	7,508
Construction bonds of 2004	<u>90,181</u>	<u>1,813</u>
Total Wastewater Utility	<u>912,359</u>	<u>625,380</u>
Total business-type activities debt	<u>\$ 2,635,811</u>	<u>\$ 767,992</u>

CITY OF JONESBORO
EXAMINATION RESULTS AND COMMENTS

FINANCIAL REPORT OPINION MODIFICATION

The financial records did not provide sufficient information to examine or establish beginning balances, receipts, disbursements, ending balances, or the accuracy or correctness of the transactions. Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Accountant's Report for the financial statements. A similar comment appeared in prior Report B35183.

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)

CONDITION OF RECORDS

Financial records presented for examination were incomplete and not reflective of the financial activity. The following deficiencies were noted in the financial records:

- (1) The total cash balances on the ledger January 1, 2009, were \$7,867 less than the total cash balances on the ledger December 31, 2008.
- (2) There were some receipts that were either not posted to the ledger or posted for an incorrect amount.
- (3) Transfers were not properly posted. Some transfers were made by check and others were by ledger posting only. Due to the inconsistent treatment and incorrect posting of transfers, not all transfers could be verified.
- (4) Transactions of the Water Utility - Bond and Interest Fund and Water Utility - Debt Reserve Fund (used to account for the State Revolving Fund Loans) were not properly posted. As of December 31, 2009, transfers made by check were not always receipted into the funds or were receipted into an incorrect fund; and some disbursements, made by the trust agent for principal and interest, were not posted to the financial records. The cumulative effect of these errors on the Water Utility - Bond and Interest Fund was an overstated cash balance of \$215,343. The cumulative effect of these errors on the Water Utility - Debt Reserve Fund was an understated cash balance of \$38,047.
- (5) Transactions of the Payroll Fund were not properly posted. Both the employee and employer portions of FICA and Medicare taxes and the total amount for medical insurance premiums were paid from payroll withholding accounts. Only employee deductions were receipted into the payroll withholding accounts, creating a negative cash balance of \$23,061.

A similar comment appeared in prior Report B35183.

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)

CITY OF JONESBORO
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)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were inaccurate during the period examined. A review of the information provided indicated the following:

- (1) City funds recorded in the ledger are less than the net bank balance by \$13,881;
- (2) Water Utility funds recorded in the ledger are less than the net bank balance by \$1,053;
- (3) Wastewater Utility funds recorded in the ledger are greater than the net bank balance by \$6,207; and
- (4) State Revolving Funds recorded in the ledger through the Water Bond and Interest Fund and the Water Debt Reserve Fund are greater than the net bank balance by \$177,296.

A similar comment appeared in prior Report B35183.

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)

OVERDRAWN CASH BALANCES

The cash balances of the following funds were overdrawn at December 31, 2009. A similar comment appeared in prior Report B35183.

<u>Fund</u>	<u>Amount</u>
Payroll	\$ 23,061
Water Utility - Operating	4,238
Wastewater Utility - Operating	84,270

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 JONESBORO
EXAMINATION RESULTS AND COMMENTS
(Continued)

SUPPORTING DOCUMENTATION

Several payments were observed which were not supported by adequate documentation, such as receipts, invoices, and other public records. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established. The records indicated that the payments were for supplies, credit card charges, and charges to store credit accounts. A similar comment appeared in prior Report B35183.

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)

CREDIT CARDS

The City is using credit cards to purchase items without an approved credit card policy. Some payments were made based on credit card statements and were not supported by original receipts or invoices. A similar comment appeared in prior Report B35183.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.

CITY OF JONESBORO
EXAMINATION RESULTS AND COMMENTS
(Continued)

(7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.

(8) If properly authorized, an annual fee may be paid.

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

INVESTMENT TRANSACTIONS

A certificate of deposit purchased from the Wastewater Utility - Bond and Interest Fund in the amount of \$53,000 matured in December 2009. A cashier's check was issued by Salin Bank to the City for the principal amount. The cashier's check was then used to purchase another certificate of deposit from Mutual Bank. Therefore, the maturing of the original certificate of deposit and the purchase of the new certificate of deposit were not recorded in the financial records of the City.

When the investments by fund are sold, the full amount of such sale should be entered as receipt to the fund from which the investment was made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

When an investment is made the treasurer shall issue a warrant payable to the financial institution from which the investment is purchased. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CUSTOMER DEPOSIT REGISTER

The detailed customer deposit register balance was \$566 higher than the customer deposit cash balance on the funds ledger at December 31, 2009. A similar comment appeared in prior Report B35183.

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)

INCORRECT ACCOUNTS RECEIVABLE BALANCES

Utility and sanitation accounts receivable at December 31, 2009, totaled \$169,861, which included accounts that were not receivables. On several occasions in 2007 and a few occasions in 2008, the billing clerk could not correct problems in the computerized customer accounts, so new accounts were created. Some of these incorrect accounts were adjusted in 2009, but some still remain in the customer accounts receivable balance at December 31, 2009. The total amount of incorrect account balances included in accounts receivable could not be determined. A similar comment appeared in prior Report B35183.

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)

CITY OF JONESBORO
EXAMINATION RESULTS AND COMMENTS
(Continued)

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties had not been properly recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property. A similar comment appeared in prior Report B35183.

IC 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;
 - (B) A description of the premises, as shown by the records of the county auditor; and
 - (C) The amount of the delinquent fees, together with the penalty;
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

(c) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May . . ."

ORDINANCES AND RESOLUTIONS

The Wastewater Utility has an ordinance that establishes wastewater rates and charges, including charges for late payments. A commercial customer was not charged penalties for late payments.

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)

CAPITAL ASSET RECORDS

The City does not maintain capital asset records.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded on the applicable Capital Asset Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF JONESBORO
EXAMINATION RESULTS AND COMMENTS
(Continued)

OFFICIAL BOND

The official bond for the Clerk-Treasurer was not filed in the office of the County Recorder for the year 2009.

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. . . ."

CITY OF JONESBORO
EXIT CONFERENCE

The contents of this report were discussed on August 10, 2010, with Karen S. Owen, Clerk-Treasurer; Jay R. Akers, Mayor; Leslie M. Orr, President of the Common Council; and Robert D. Couse, Common Council member.