

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

EXAMINATION REPORT

OF

CITY OF SULLIVAN

SULLIVAN COUNTY, INDIANA

January 1, 2009 to December 31, 2009



FILED
12/10/2010

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Donna Sue Pitts	01-01-08 to 12-31-11
Mayor	J. Scott Biddle Debra J. Ayres (Interim) Edward F. Eble	01-01-08 to 06-02-09 06-03-09 to 06-25-09 06-26-09 to 12-31-11
President of the Board of Public Works and Safety	J. Scott Biddle Debra J. Ayres (Interim) Edward F. Eble	01-01-08 to 06-02-09 06-03-09 to 06-25-09 06-26-09 to 12-31-11
President of the Common Council	Debra J. Ayres	01-01-09 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 SULLIVAN, SULLIVAN COUNTY, INDIANA

We have examined the financial information presented herein of the City of Sullivan (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.

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, 2009, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

September 16, 2010

CITY OF SULLIVAN
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	\$ 224,004	\$ 1,279,524	\$ 1,212,584	\$ 290,944
Motor Vehicle Highway	(9,761)	146,048	74,138	62,149
Local Road and Street	58,746	14,506	1,202	72,050
Park and Recreation	4,152	100,096	85,983	18,265
Park Nonreverting	10,243	84,089	74,209	20,123
Ambulance	66,169	150,888	182,753	34,304
Park/Pool Donations	20	-	-	20
Crime Control	915	-	-	915
Local Law Enforcement Continuing Education	2,357	6,412	5,754	3,015
Unsafe Building	13,070	-	4,419	8,651
Riverboat	29,132	28,892	-	58,024
Rainy Day	37,689	50,224	12,500	75,413
Section Street Project	-	160,015	160,015	-
Section Street Infrastructure	123,991	130,583	43,500	211,074
Sullivan Youth Center	17,810	-	17,810	-
Adopt A Spot	241	-	-	241
Tax Draw Clearing	13,507	41,745	47,295	7,957
EDIT Tax	-	180,807	180,807	-
Fire Department Nonreverting	8,364	1,279	10,314	(671)
Fire Reports/Donations	279	926	-	1,205
Street Cut Deposit	4,650	500	-	5,150
Police Ordinance Violation	1,301	500	-	1,801
Cemetery Nonreverting	3,629	21,069	19,439	5,259
Street Department Nonreverting	58,403	4,185	54,818	7,770
Fire WVCF HazMat Grant	-	7,500	-	7,500
Gas/Fuel Clearing	-	32,142	34,254	(2,112)
Cumulative Capital Improvement	29,930	14,157	-	44,087
Cumulative Capital Development	29,258	17,339	-	46,597
Proprietary Funds:				
Wastewater Utility - Operating	970,740	1,473,962	1,506,392	938,310
Wastewater Utility - Bond and Interest	333,654	487,747	486,157	335,244
Wastewater Utility - Debt Service Reserve	-	97,200	97,200	-
Wastewater Utility - Improvement	141,636	947	-	142,583
Wastewater Utility - Construction	56,090	394	-	56,484
Trash Utility - Operating	55,887	204,328	219,746	40,469
Fiduciary Funds:				
Police Officers' Pension	80,975	91,561	90,576	81,960
Firefighters' Pension	116,062	96,467	124,235	88,294
Payroll	3,673	1,400,489	1,400,897	3,265
Totals	<u>\$ 2,486,816</u>	<u>\$ 6,326,521</u>	<u>\$ 6,146,997</u>	<u>\$ 2,666,340</u>

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

CITY OF SULLIVAN
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, highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, wastewater, and urban redevelopment and housing.

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 District 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 SULLIVAN
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2009

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

General infrastructure assets completed in the current and years since December 31, 2006, have been reported.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 172,157
Buildings	1,360,812
Improvements other than buildings	365,522
Machinery and equipment	2,030,102
Infrastructure	<u>6,320,022</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 10,248,615</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	\$ 122,420
Buildings	522,788
Improvements other than buildings	3,759,091
Machinery and equipment	594,345
Infrastructure	<u>265,578</u>
 Total business-type activities capital assets	 <u>\$ 5,264,222</u>

CITY OF SULLIVAN
 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:		
Notes and loans payable:		
Police car	\$ 60,003	\$ 21,306
Ambulance	7,779	7,997
Fire truck	198,600	43,580
Pool liner	34,512	8,029
Playground equipment	6,879	3,696
Dura Patcher/dump truck	53,116	14,802
Rescue truck	5,393	5,516
General obligation bonds:		
Section Street	1,100,000	84,800
Total governmental activities debt	<u>\$ 1,466,282</u>	<u>\$ 189,726</u>
Business-type activities:		
Wastewater Utility:		
Notes and loans payable:		
Sewer improvements	\$ 134,859	\$ 73,135
Sewer improvements - State Revolving Loan	6,798,265	412,428
Total Wastewater Utility	<u>6,933,124</u>	<u>485,563</u>
Other Utility:		
Notes and loans payable:		
Dump truck	18,110	6,547
Total business-type activities debt	<u>\$ 6,951,234</u>	<u>\$ 492,110</u>

CITY OF SULLIVAN
EXAMINATION RESULTS AND COMMENTS

APPROPRIATIONS (Applies to City)

The records presented for examination indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
Police Pension	2009	\$ 28,676
Fire Pension	2009	25,204

IC 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

BANK ACCOUNT RECONCILIATIONS (Applies to City)

The depository reconciliation of the fund balances to the bank account balance for the City's "Civil City" account was incorrect/long as of December 31, 2009, by \$2,320.

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)

DELINQUENT WASTEWATER ACCOUNTS (Applies to Utility)

As noted in the prior Report B34982, delinquent Wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

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;

CITY OF SULLIVAN
EXAMINATION RESULTS AND COMMENTS
(Continued)

(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; or

(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. . . ."

DISBURSEMENTS WITHOUT APPROPRIATIONS (Applies to City)

Disbursements were made from the City's Park Nonreverting Operating Fund for supplies and other miscellaneous items. Formal budgets and appropriations were not found to have been prepared and approved for these disbursements. Concession charges, pool pass fees, and shelter rental fees were the primary sources of revenues used to fund these disbursements.

IC 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

IC 36-10-3-22 relates to charging fees for park services and authorizes establishing either/or a special nonreverting operating fund or a special nonreverting capital fund and states:

". . . (b) The unit's fiscal body may establish by ordinance upon request of the board:

(1) a special nonreverting operating fund for park purposes from which expenditures may be made as provided by ordinance, either by appropriation by the board or by the unit's fiscal body; . . ."

ERRORS ON CLAIMS (Applies to City and Utility)

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

(1) Claims or invoices did not have evidence to support receipt of goods or services.

(2) Not all claims were certified by the Clerk-Treasurer that the invoice or bill is true and correct.

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."

CITY OF SULLIVAN
EXAMINATION RESULTS AND COMMENTS
(Continued)

"(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."

1925 POLICE PENSION PLAN UNDERPAYMENTS (Applies to City)

As noted in the prior Report B34982, pension recipients in the 1925 Police Pension Plan were underpaid in 2009.

IC 36-8-6 outlines the computation of benefits for the members of the 1925 Police Pension Plan.

OLD OUTSTANDING WARRANTS (Applies to City)

Our review of the bank reconcilements as of December 31, 2009, revealed warrants outstanding in excess of two years.

IC 5-11-10.5-2 states in part:

"All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

IC 5-11-10.5-3 states in part:

"Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the board of finance of the political subdivision or the fiscal body of a city or town. The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

CITY OF SULLIVAN
EXAMINATION RESULTS AND COMMENTS
(Continued)

IC 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

OPTICAL IMAGES OF DEPOSIT DOCUMENTS AND WARRANTS (Applies to City and Utility)

Harris Bank did not return the actual deposit documents and cancelled checks with the monthly bank statements, but instead returned only an optical image of the front side of the checks.

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)."

OVERDRAWN CASH BALANCES (Applies to City)

The cash balance of the Fire Department Nonreverting Fund and the Gas/Fuel Clearing Fund were overdrawn in 2010.

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 SULLIVAN
EXIT CONFERENCE

The contents of this report were discussed on September 16, 2010, with Donna Sue Pitts, Clerk-Treasurer, and Debra J. Ayres, President of the Common Council. The officials concurred with our findings.