

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

EXAMINATION REPORT
OF
TOWN OF WARREN
HUNTINGTON COUNTY, INDIANA
January 1, 2008 to December 31, 2009



FILED
01/04/2011

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Marilyn J. Morrison	01-01-08 to 12-31-11
President of the Town Council	William C. Cartwright	01-01-08 to 12-31-10
Superintendent of Utilities	Curtis L. Day	01-01-08 to 12-31-10



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF WARREN, HUNTINGTON COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Warren (Town), for the period of January 1, 2008 to December 31, 2009. The Town's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Except as described in the following paragraph, 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.

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 period of January 1, 2008 to December 31, 2009.

Because the Town did not maintain accurate and complete records as described above, 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 for the period January 1, 2008 to December 31, 2009.

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 15, 2010

TOWN OF WARREN
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Years Ended December 31, 2008 And 2009

	Cash and Investments 01-01-08	Receipts	Disbursements	Cash and Investments 12-31-08
Governmental Funds:				
General	\$ 463,997	\$ 381,748	\$ 375,142	\$ 470,603
Motor Vehicle Highway	505,892	143,635	72,018	577,509
Local Road and Street	92,337	6,873	25,000	74,210
Rainy Day	40,058	3,232	-	43,290
Law Enforcement Continuing Education	2,907	1,573	1,183	3,297
TIF Allocation	158,940	53,322	48	212,214
Sanitation	7,653	41,984	45,722	3,915
Cumulative Capital Improvement	33,111	4,136	-	37,247
Cumulative Capital Development	147,210	14,424	7,748	153,886
Cumulative Fire	58,158	9,867	-	68,025
Economic Development Income Tax	93,166	53,575	44,573	102,168
Proprietary Funds:				
Water Utility - Operating	223,570	215,366	385,823	53,113
Water Utility - Bond and Interest	15,893	22,900	23,210	15,583
Water Utility - Depreciation	25,569	59,799	-	85,368
Water Utility - Customer Deposits	27,150	4,650	3,800	28,000
Water Utility - Building Corporation	7,049	21,382	10,500	17,931
Water Utility - Cash Reserve	100,000	-	-	100,000
Water Utility - Debt Service Reserve	26,625	-	-	26,625
Wastewater Utility - Operating	231,650	210,143	250,618	191,175
Wastewater Utility - Bond and Interest	112,710	158,121	74,365	196,466
Wastewater Utility - Depreciation	88,564	48,165	62,150	74,579
Wastewater Utility - Customer Deposits	11,315	5,170	2,895	13,590
Wastewater Utility - Revenue	322	367,986	339,961	28,347
Wastewater Utility - Debt Service Reserve 2002	74,880	-	-	74,880
Electric Utility - Operating	223,644	1,634,358	1,508,924	349,078
Electric Utility - Depreciation	244,627	18,000	171,712	90,915
Electric Utility - Customer Deposits	40,594	5,850	4,300	42,144
Electric Utility - Cash Reserve	451,183	30,000	10,000	471,183
Electric Utility - Rate Stabilization	73,971	-	13,971	60,000
Fiduciary Funds:				
Payroll	2,124	506,113	502,903	5,334
Fire Department Donation	6,793	-	-	6,793
Arts Festival Donation	1,409	-	-	1,409
Totals	\$ 3,593,071	\$ 4,022,372	\$ 3,936,566	\$ 3,678,877

	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
Governmental Funds:				
General	\$ 470,603	\$ 379,300	\$ 391,918	\$ 457,985
Motor Vehicle Highway	577,509	157,542	46,612	688,439
Local Road and Street	74,210	6,445	-	80,655
Rainy Day	43,290	608	-	43,898
Law Enforcement Continuing Education	3,297	740	466	3,571
TIF Allocation	212,214	76,214	-	288,428
Sanitation	3,915	37,779	36,535	5,159
Cumulative Capital Improvement	37,247	3,900	25,000	16,147
Cumulative Capital Development	153,886	13,069	-	166,955
Cumulative Fire	68,025	8,818	20,000	56,843
Economic Development Income Tax	102,168	57,261	42,000	117,429
Proprietary Funds:				
Water Utility - Operating	53,113	252,217	237,381	67,949
Water Utility - Bond and Interest	15,583	24,000	22,310	17,273
Water Utility - Depreciation	85,368	34,056	8,491	110,933
Water Utility - Customer Deposits	28,000	4,200	5,350	26,850
Water Utility - Building Corporation	17,931	17,090	25,850	9,171
Water Utility - Cash Reserve	100,000	-	-	100,000
Water Utility - Debt Service Reserve	26,625	-	-	26,625
Wastewater Utility - Operating	191,175	280,018	312,591	158,602
Wastewater Utility - Bond and Interest	196,466	160,800	147,931	209,335
Wastewater Utility - Depreciation	74,579	50,001	121,000	3,580
Wastewater Utility - Customer Deposits	13,590	4,850	4,275	14,165
Wastewater Utility - Revenue	28,347	368,001	368,001	28,347
Wastewater Utility - Debt Service Reserve 2002	74,880	1,200	-	76,080
Electric Utility - Operating	349,078	1,966,269	1,613,041	702,306
Electric Utility - Depreciation	90,915	28,000	14,664	104,251
Electric Utility - Customer Deposits	42,144	5,325	5,855	41,614
Electric Utility - Cash Reserve	471,183	27,500	20,000	478,683
Electric Utility - Rate Stabilization	60,000	-	-	60,000
Fiduciary Funds:				
Payroll	5,334	525,554	523,212	7,676
Fire Department Donation	6,793	-	-	6,793
Arts Festival Donation	1,409	-	-	1,409
Totals	\$ 3,678,877	\$ 4,490,757	\$ 3,992,483	\$ 4,177,151

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

TOWN OF WARREN
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety, highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater and electric.

Note 2. Fund Accounting

The Town 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 Town 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 Town 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 Town 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.

TOWN OF WARREN
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2009

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Capital lease:		
Warren Building Corporation	\$ 175,007	\$ 42,000
Business-type activities:		
Water Utility:		
Capital lease:		
Warren Building Corporation	\$ 84,264	\$ 20,500
Revenue bonds:		
1994 Waterworks revenue bonds	100,000	21,395
Total Water Utility	184,264	41,895
Wastewater Utility:		
Revenue bonds:		
2002 Sewage works revenue bonds	2,529,000	147,423
Total business-type activities long-term debt	\$ 2,713,264	\$ 189,318

TOWN OF WARREN
EXAMINATION RESULTS AND COMMENTS

FINANCIAL REPORT OPINION MODIFICATIONS

Financial records presented for examination were incomplete and did not provide sufficient information to examine or establish 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 Auditors' Report for the financial information.

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)

PENALTIES, INTEREST, AND OTHER CHARGES

Penalties and interest totaling \$1,207.67 were paid during the examination period. During 2008, \$357.67 was paid to the Indiana Department of Revenue for errors related to 2007 tax liabilities. During 2009, \$630 was paid to the Internal Revenue Service and \$220 was paid to the Indiana Department of Revenue for the late filing of 2008 Form W-2's and Form WH-3. A similar comment appeared in prior Report B33374.

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)

Marilyn J. Morrison, Clerk-Treasurer, was requested to reimburse the Town \$1,207.67 for payment of penalties and interest. (See Summary, page 14)

CONDITION OF RECORDS

Financial records presented for examination were incomplete and not reflective of the activity of the Town and its Utilities. Not all deposits made and checks issued were recorded in the records. On several occasions, transfers were recorded as a receipt into one fund, but were not recorded as a disbursement from another fund. Additionally, investment transactions were not recorded in the records.

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)

TOWN OF WARREN
EXAMINATION RESULTS AND COMMENTS
(Continued)

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

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 incomplete and incorrect. Several transaction posting errors were discovered during the examination which were not identified in the reconcilements. Transaction posting errors that were identified in the reconcilements were not corrected in a timely manner and were carried forward from year to year. Additionally, some amounts used in the reconcilements were incorrect or could not be verified to supporting documentation.

IC 5-13-6-1(e) states: "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 responsibility for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ANNUAL REPORTS

The amounts reported on the 2008 and 2009 Annual City and Town Financial Report (CTAR-1) were inaccurate. Receipts, disbursements, and balances were incorrect and not reflective of the financial activity of the Town.

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 . . ."

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)

APPROPRIATIONS

Disbursements for the Cumulative Fire Fund exceeded appropriations for 2009 by \$20,000. This fund originally had approved appropriations of \$70,000, but Resolution 3-2009 reduced the appropriations balance to \$0. However, disbursements of \$20,000 were made from this fund.

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

TOWN OF WARREN
EXAMINATION RESULTS AND COMMENTS
(Continued)

CAPITAL ASSET RECORDS

Capital asset records were not maintained for the Town or Utilities. A similar comment appeared in prior Report B33374.

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 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)

PUBLIC WORKS PROJECT

A public works contract in the amount of \$180,190 was entered into for downtown improvements. Change orders on this contract totaled \$45,204, which increased the original contract amount by 25%.

IC 36-1-12-18(d) states: "The total of all change orders issued that increase the scope of the project may not exceed twenty percent (20%) of the amount of the original contract. A change order issued as a result of circumstances that could not have been reasonably foreseen does not increase the scope of the project."

COLLECTION OF AMOUNTS DUE

On October 9, 2006, the Town entered into a contract with Crazy D's Warren, Inc., for a Water Utility connection. The principal amount of the contract, \$68,396, was to be paid with a \$17,000 down payment and \$1,191 per month commencing November 1, 2006, until paid in full. The down payment and monthly payments were made through November 8, 2007, leaving an unpaid balance of \$35,919. Subsequent to that date, ownership of Crazy D's Warren, Inc., changed. No payments have been made after the change in ownership. A similar comment appeared in prior Report B33374.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DISTRIBUTION OF GROSS REVENUES TO THE VARIOUS FUNDS

Gross revenues were not being distributed to the Wastewater Utility Debt Service Reserve Fund ("Reserve Fund") in accordance with Revenue Bond Ordinance 2002-14, approved August 26, 2002. The bond ordinance requires \$1,200 per month (\$14,400 per year) be transferred to the Reserve Fund. During 2008 and 2009, only \$1,200 was transferred to the Reserve Fund. All other transfers (\$27,600) were receipted to the Bond and Interest Fund in error. The Reserve Fund balance at December 31, 2009 was \$76,080.

TOWN OF WARREN
EXAMINATION RESULTS AND COMMENTS
(Continued)

Revenue Bond Ordinance Section 13.(b) states in part:

"The initial deposit or the balance accumulated in the Reserve Account shall equal but not exceed the least of (i) the maximum annual debt service on the 1995 Bonds and the Bonds, (ie. \$184,843) (ii) 125% of the average annual debt service on the 1995 Bonds and the Bonds, (ie. \$148,745) or (iii) 10% of the proceeds of the 1995 Bonds and the Bonds, plus a minor portion thereof, as defined in the Internal Revenue Code of 1986, as amended ("Reserve Requirement") (ie. \$272,000) . . . The monthly deposits shall be equal in amount and sufficient to accumulate the Reserve Requirement within ten (10) years of the date of delivery of the Bonds."

At this rate of funding, the Reserve Fund will not accumulate the required minimum balance of \$148,745 by 2012.

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)

DELINQUENT ACCOUNTS RECEIVABLE

The Water and Electric Utilities did not always shut off delinquent customers as required by Town ordinance. This has resulted in the loss of revenue due to customers, in some cases, abandoning their property and failing to pay.

The Warren Code of Ordinances, Section 52.52 (A) states in part: "If not paid within 15 days of the due date, the water shall be turned off and not turned on again until all bills and penalties have been paid."

With regard to Electric service, the Warren Code of Ordinances, Section 51.14 states: "The town reserves the right to discontinue its current service without notice in case the consumer is in arrears in the payment of the town bills, or fails to comply with the rules or regulations herein provided."

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)

DELINQUENT WASTEWATER ACCOUNTS

Delinquent Wastewater fees and penalties have not been 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 B33374.

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:

TOWN OF WARREN
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (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.
 - (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. . . ."

OFFICIAL BOND

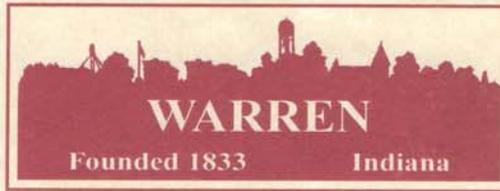
The Clerk-Treasurer's official bond was not filed in the Office of the County Recorder and was not payable to the State of Indiana.

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. . . ."

IC 5-4-1-10 states: "All official bonds shall be payable to the state of Indiana; and every such bond shall be obligatory to such state, upon the principal and sureties, for the faithful discharge of all duties required of such officer by any law, then or subsequently in force, for the use of any person injured by any breach of the condition thereof."

TOWN OF WARREN
EXIT CONFERENCE

The contents of this report were discussed on November 15, 2010, with Marilyn J. Morrison, Clerk-Treasurer, and William C. Cartwright, President of the Town Council. The official response has been made a part of this report and may be found on page 13.



SMALL TOWN ♥ BIG HEART

November 24, 2010

To Whom It May Concern:

Statement on Financial Records:

Condition of Records:

While the records were not balanced, a monthly reconciliation was completed with discrepancy noted at each month. The records were balanced monthly to that discrepancy except in one instance where the amount of discrepancy changed monthly. That problem, with the help of the auditors, was solved with the records then balancing in that utility. A listing of discrepancies was discussed with and provided to the auditor upon arrival but exact dates of the occurrences, along with claim number and/or check number, were not listed or were not known. The discrepancy was showing more money in the bank than in the records. Again, while the books were not balanced, efforts were consistently made and still being made to find the problems. When the items were found and corrected, amendment was made to the annual report after original submission. Some of the issues related to an update of the system which resulted in renumbering of accounts and learning a new system of two merged systems, loss of records due to computer failure at which time records were not correctly re-entered, and new employee training. Financial records were always shown with discrepancy noted. No direct statement was made by auditor concerning deposits and checks not always recorded in the records. The checks were most probably a series of checks in all funds that for some reason showed in a nonposted file in November of 2009 but were found through reconciliation and noted. Deposits not recorded must relate to transfers disbursed but not received in but found in reconciliation.

An investment report is kept by spreadsheet which shows activity within investments. It had never been noted previously in any audit that the spreadsheet method was not acceptable.

Distribution of Gross Revenues:

A transfer was made monthly in the amount of \$1200 into a separate revenue number within the Debt Service Fund so a simple transfer was made to the separate Reserve Fund to make the total accurately reflect the transferred amount.

Collection of Amounts Due:

The owner of the property is under Bankruptcy Protection at this time.

Delinquent Accounts Receivable:

Although disconnects are made at least twice a month, in some cases 'arrangements to pay are made' with instances where properties are then vacated. Once vacated, or once the account becomes inactive, accounts are turned over to Attorneys for collection. Liens are not an option the attorney pursues.

Submitted:

Marilyn Morrison

Marilyn Morrison
Clerk-Treasurer

William Cartwright
William Cartwright
Town Council President

TOWN OF WARREN
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Marilyn J. Morrison, Clerk-Treasurer:			
Penalties, Interest, and Other Charges, page 7	\$ 1,207.67	\$	\$
Paid November 15, 2010	<u> </u>	<u>1,207.67</u>	<u> </u>
 Totals	 <u>\$ 1,207.67</u>	 <u>\$ 1,207.67</u>	 <u>\$ -</u>