

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF CHALMERS
WHITE COUNTY, INDIANA

January 1, 2011 to December 31, 2012



FILED
09/30/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Debra K. Clawson	01-01-08 to 12-31-15
President of the Town Council	Marcus L. King	01-01-11 to 12-31-13



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF CHALMERS, WHITE COUNTY, INDIANA

Report on the Financial Statement

We were engaged to audit the accompanying financial statement of the Town of Chalmers (Town), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the *Basis for Disclaimer of Opinion* paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The Town did not properly maintain accounting records which prevented us from being able to obtain sufficient competent evidential matter necessary to issue an audit opinion on the financial statement. The Town's records do not permit the application of other auditing procedures to ascertain if the financial statement is fairly stated.

Disclaimer of Opinion

Because of the significance of the matter discussed in the *Basis for Disclaimer of Opinion* paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on this financial statement.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 12, 2013, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The

INDEPENDENT AUDITOR'S REPORT
(Continued)

purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* paragraph in this report and because federal grant monies were not accurately and separately identified in the financial ledgers, it is inappropriate to and we do not express an opinion on the Schedule of Expenditures of Federal Awards referred to above.

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis and Schedule of Leases and Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to any auditing procedures and, accordingly, we express no opinion on them.



Bruce Hartman
State Examiner

September 12, 2013



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE TOWN OF CHALMERS, WHITE COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the Town of Chalmers (Town), which comprises the financial position and results of operations for the period of January 1, 2011 to December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated September 12, 2013, wherein we noted the Town followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America. The opinion to the financial statement relative to the regulatory basis of accounting was disclaimed due to the improper posting and maintenance of the accounting records.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1 and 2012-2 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

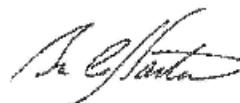
As part of obtaining reasonable assurance about whether the Town's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1.

Town of Chalmers's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman
State Examiner

September 12, 2013

FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the Town. The financial statement and notes are presented as intended by the Town.

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TOWN OF CHALMERS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Years Ended December 31, 2011 And 2012

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11	Receipts	Disbursements	Cash and Investments 12-31-12
General	\$ 108,083	\$ 101,040	\$ 91,887	\$ 117,236	\$ 96,364	\$ 66,743	\$ 146,857
Motor Vehicle Highway	30,260	23,540	26,477	27,323	23,058	28,297	22,084
Local Road And Street	1,906	2,335	2,190	2,051	2,403	2,998	1,456
Law Enforcement Continuing Education	1,408	290	-	1,698	100	-	1,798
Riverboat	15,815	3,211	7,033	11,993	3,009	-	15,002
Parks And Recreation	19,294	9,433	21,345	7,382	9,990	10,324	7,048
Rainy Day	3,451	-	3,450	1	-	-	1
Levy Excess	230	-	-	230	764	-	994
Cumulative Capital Improvement Cigarette Tax	5,738	1,473	2,039	5,172	1,347	-	6,519
County Economic Development Income Tax	443	6,120	4,300	2,263	7,831	2,950	7,144
Donations	525	-	-	525	-	-	525
Trash	5,531	20,540	26,023	48	22,513	22,444	117
Payroll	3,126	139,425	140,077	2,474	135,946	135,271	3,149
Electric Utility Operating	(188,873)	416,806	392,733	(164,800)	464,257	379,794	(80,337)
Electric Utility Depreciation	53,293	-	46,452	6,841	-	-	6,841
Electric Utility Customer Deposit	14,620	1,125	255	15,490	1,585	415	16,660
Electric Utility Cash Reserve	35,947	-	-	35,947	-	-	35,947
Wastewater Utility Operating	49,332	149,476	138,494	60,314	134,104	188,300	6,118
Wastewater Utility Bond And Interest	14,591	94,407	92,371	16,627	91,000	16,853	90,774
Wastewater Utility Debt Reserve	155,857	32,360	107,050	81,167	14,660	-	95,827
Water Utility Grant	-	662,761	662,761	-	267,239	267,239	-
Water Utility Operating	367	93,981	92,425	1,923	100,119	98,235	3,807
Water Utility Bond And Interest	23,179	23,525	40,676	6,028	25,918	5,877	26,069
Water Utility Depreciation	43	-	-	43	-	-	43
Water Utility Customer Deposit	7,220	825	240	7,805	1,275	369	8,711
Water Utility Construction	11,436	-	-	11,436	-	-	11,436
Water Utility Debt Reserve	17,929	4,760	-	22,689	397	-	23,086
Storm Water Utility Grant	-	995,000	995,000	-	11,048	9,767	1,281
Storm Water Utility	-	-	-	-	7,195	1,781	5,414
Totals	\$ 390,751	\$ 2,782,433	\$ 2,893,278	\$ 279,906	\$ 1,422,122	\$ 1,237,657	\$ 464,371

The notes to the financial statement are an integral part of this statement.

TOWN OF CHALMERS
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, electric, storm water, trash, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the Town.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the Town.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

TOWN OF CHALMERS
NOTES TO FINANCIAL STATEMENT
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Penalties which include fees received for late payments.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the Town. It includes all expenditures for the reduction of the principal and interest of the Town's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

TOWN OF CHALMERS
NOTES TO FINANCIAL STATEMENT
(Continued)

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The Town may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the Town. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the Town. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the Town in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the Town submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the Town in June and December; however, situations can arise which would delay the distributions. 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 percent 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 normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be 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.

TOWN OF CHALMERS
NOTES TO FINANCIAL STATEMENT
(Continued)

State statutes authorize 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.

Note 5. Risk Management

The Town may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the Town to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 6. Pension Plan

The Town contributes to the NTCA savings plan unique to the Town. Information regarding these plans may be obtained from the Town.

Note 7. Cash Balance Deficits

The Electric Operating Fund had deficit balances at the end of 2011 and 2012 of \$164,800 and \$80,377, respectively. This is a result of the Electric Utility not generating revenues sufficient to cover the cost of the operations of the Utility.

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SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Reports of the Town which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the Town. It is presented as intended by the Town.

TOWN OF CHALMERS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011

	General	Motor Vehicle Highway	Local Road And Street	Law Enforcement Continuing Education	Riverboat	Parks And Recreation	Rainy Day	Levy Excess	Cumulative Capital Improvement Cigarette Tax	County Economic Development Income Tax
Cash and investments - beginning	\$ 108,083	\$ 30,260	\$ 1,906	\$ 1,408	\$ 15,815	\$ 19,294	\$ 3,451	\$ 230	\$ 5,738	\$ 443
Receipts:										
Taxes	63,030	5,971	-	-	-	6,833	-	-	-	-
Licenses and permits	-	-	-	290	-	-	-	-	-	-
Intergovernmental	35,328	14,889	2,335	-	3,211	1,543	-	-	1,473	6,120
Charges for services	-	-	-	-	-	-	-	-	-	-
Fines and forfeits	2,302	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-	-	-
Other receipts	380	2,680	-	-	-	1,057	-	-	-	-
Total receipts	101,040	23,540	2,335	290	3,211	9,433	-	-	1,473	6,120
Disbursements:										
Personal services	25,619	2,698	-	-	-	-	-	-	-	-
Supplies	7,296	13,388	-	-	-	400	-	-	-	-
Other services and charges	34,569	8,864	2,190	-	7,033	1,100	-	-	-	-
Capital outlay	23,050	366	-	-	-	19,832	3,450	-	2,039	4,300
Utility operating expenses	-	-	-	-	-	-	-	-	-	-
Other disbursements	1,353	1,161	-	-	-	13	-	-	-	-
Total disbursements	91,887	26,477	2,190	-	7,033	21,345	3,450	-	2,039	4,300
Excess (deficiency) of receipts over disbursements	9,153	(2,937)	145	290	(3,822)	(11,912)	(3,450)	-	(566)	1,820
Cash and investments - ending	\$ 117,236	\$ 27,323	\$ 2,051	\$ 1,698	\$ 11,993	\$ 7,382	\$ 1	\$ 230	\$ 5,172	\$ 2,263

TOWN OF CHALMERS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	Donations	Trash	Payroll	Electric Utility Operating	Electric Utility Depreciation	Electric Utility Customer Deposit	Electric Utility Cash Reserve	Wastewater Utility Operating	Wastewater Utility Bond And Interest	Wastewater Utility Debt Reserve
Cash and investments - beginning	\$ 525	\$ 5,531	\$ 3,126	\$ (188,873)	\$ 53,293	\$ 14,620	\$ 35,947	\$ 49,332	\$ 14,591	\$ 155,857
Receipts:										
Taxes	-	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-	-
Charges for services	-	20,540	-	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	381,188	-	1,125	-	128,833	-	-
Penalties	-	-	-	2,001	-	-	-	2,810	-	-
Other receipts	-	-	139,425	33,617	-	-	-	17,833	94,407	32,360
Total receipts	-	20,540	139,425	416,806	-	1,125	-	149,476	94,407	32,360
Disbursements:										
Personal services	-	-	-	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-	-	-	-
Other services and charges	-	26,023	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	46,452	-	-	-	-	-
Utility operating expenses	-	-	-	365,907	-	-	-	99,166	-	-
Other disbursements	-	-	140,077	26,826	-	255	-	39,328	92,371	107,050
Total disbursements	-	26,023	140,077	392,733	46,452	255	-	138,494	92,371	107,050
Excess (deficiency) of receipts over disbursements	-	(5,483)	(652)	24,073	(46,452)	870	-	10,982	2,036	(74,690)
Cash and investments - ending	\$ 525	\$ 48	\$ 2,474	\$ (164,800)	\$ 6,841	\$ 15,490	\$ 35,947	\$ 60,314	\$ 16,627	\$ 81,167

TOWN OF CHALMERS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	Water Utility Grant	Water Utility Operating	Water Utility Bond And Interest	Water Utility Depreciation	Water Utility Customer Deposit	Water Utility Construction	Water Utility Debt Reserve	Storm Water Utility Grant	Storm Water Utility	Totals
Cash and investments - beginning	\$ -	\$ 367	\$ 23,179	\$ 43	\$ 7,220	\$ 11,436	\$ 17,929	\$ -	\$ -	\$ 390,751
Receipts:										
Taxes	-	-	-	-	-	-	-	-	-	75,834
Licenses and permits	-	-	-	-	-	-	-	-	-	290
Intergovernmental	-	-	-	-	-	-	-	-	-	64,899
Charges for services	-	-	-	-	-	-	-	-	-	20,540
Fines and forfeits	-	-	-	-	-	-	-	-	-	2,302
Utility fees	-	85,922	-	-	825	-	-	-	-	597,893
Penalties	-	566	-	-	-	-	-	-	-	5,377
Other receipts	662,761	7,493	23,525	-	-	-	4,760	995,000	-	2,015,298
Total receipts	662,761	93,981	23,525	-	825	-	4,760	995,000	-	2,782,433
Disbursements:										
Personal services	-	-	-	-	-	-	-	-	-	28,317
Supplies	-	-	-	-	-	-	-	-	-	21,084
Other services and charges	-	-	-	-	-	-	-	-	-	79,779
Capital outlay	-	-	-	-	-	-	-	-	-	99,489
Utility operating expenses	-	64,139	-	-	-	-	-	-	-	529,212
Other disbursements	662,761	28,286	40,676	-	240	-	-	995,000	-	2,135,397
Total disbursements	662,761	92,425	40,676	-	240	-	-	995,000	-	2,893,278
Excess (deficiency) of receipts over disbursements	-	1,556	(17,151)	-	585	-	4,760	-	-	(110,845)
Cash and investments - ending	\$ -	\$ 1,923	\$ 6,028	\$ 43	\$ 7,805	\$ 11,436	\$ 22,689	\$ -	\$ -	\$ 279,906

TOWN OF CHALMERS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	General	Motor Vehicle Highway	Local Road And Street	Law Enforcement Continuing Education	Riverboat	Parks And Recreation	Rainy Day	Levy Excess	Cumulative Capital Improvement Cigarette Tax	County Economic Development Income Tax
Cash and investments - beginning	\$ 117,236	\$ 27,323	\$ 2,051	\$ 1,698	\$ 11,993	\$ 7,382	\$ 1	\$ 230	\$ 5,172	\$ 2,263
Receipts:										
Taxes	62,338	8,905	-	-	-	8,905	-	-	-	-
Licenses and permits	1,712	-	-	100	-	-	-	-	-	-
Intergovernmental	32,179	14,153	2,403	-	3,009	959	-	764	1,347	7,831
Charges for services	-	-	-	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-	-	-	-
Other receipts	135	-	-	-	-	126	-	-	-	-
Total receipts	96,364	23,058	2,403	100	3,009	9,990	-	764	1,347	7,831
Disbursements:										
Personal services	23,534	5,131	-	-	-	-	-	-	-	-
Supplies	1,861	15,018	-	-	-	290	-	-	-	-
Other services and charges	16,991	4,148	2,998	-	-	3,062	-	-	-	-
Capital outlay	15,357	4,000	-	-	-	6,972	-	-	-	2,950
Utility operating expenses	-	-	-	-	-	-	-	-	-	-
Other disbursements	9,000	-	-	-	-	-	-	-	-	-
Total disbursements	66,743	28,297	2,998	-	-	10,324	-	-	-	2,950
Excess (deficiency) of receipts over disbursements	29,621	(5,239)	(595)	100	3,009	(334)	-	764	1,347	4,881
Cash and investments - ending	\$ 146,857	\$ 22,084	\$ 1,456	\$ 1,798	\$ 15,002	\$ 7,048	\$ 1	\$ 994	\$ 6,519	\$ 7,144

TOWN OF CHALMERS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Donations	Trash	Payroll	Electric Utility Operating	Electric Utility Depreciation	Electric Utility Customer Deposit	Electric Utility Cash Reserve	Wastewater Utility Operating	Wastewater Utility Bond And Interest	Wastewater Utility Debt Reserve
Cash and investments - beginning	\$ 525	\$ 48	\$ 2,474	\$ (164,800)	\$ 6,841	\$ 15,490	\$ 35,947	\$ 60,314	\$ 16,627	\$ 81,167
Receipts:										
Taxes	-	-	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-	-	-
Charges for services	-	22,513	-	-	-	-	-	-	-	-
Utility fees	-	-	-	456,031	-	1,585	-	130,993	-	-
Penalties	-	-	-	2,029	-	-	-	3,111	-	-
Other receipts	-	-	135,946	6,197	-	-	-	-	91,000	14,660
Total receipts	-	22,513	135,946	464,257	-	1,585	-	134,104	91,000	14,660
Disbursements:										
Personal services	-	-	94,236	-	-	-	-	-	-	-
Supplies	-	2,294	-	-	-	-	-	-	-	-
Other services and charges	-	20,150	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	379,794	-	-	-	80,989	-	-
Other disbursements	-	-	41,035	-	-	415	-	107,311	16,853	-
Total disbursements	-	22,444	135,271	379,794	-	415	-	188,300	16,853	-
Excess (deficiency) of receipts over disbursements	-	69	675	84,463	-	1,170	-	(54,196)	74,147	14,660
Cash and investments - ending	\$ 525	\$ 117	\$ 3,149	\$ (80,337)	\$ 6,841	\$ 16,660	\$ 35,947	\$ 6,118	\$ 90,774	\$ 95,827

TOWN OF CHALMERS
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Water Utility Grant	Water Utility Operating	Water Utility Bond And Interest	Water Utility Depreciation	Water Utility Customer Deposit	Water Utility Construction	Water Utility Debt Reserve	Storm Water Utility Grant	Storm Water Utility	Totals
Cash and investments - beginning	\$ -	\$ 1,923	\$ 6,028	\$ 43	\$ 7,805	\$ 11,436	\$ 22,689	\$ -	\$ -	\$ 279,906
Receipts:										
Taxes	-	-	-	-	-	-	-	-	-	80,148
Licenses and permits	-	-	-	-	-	-	-	-	-	1,812
Intergovernmental	-	-	-	-	-	-	-	-	-	62,645
Charges for services	-	-	-	-	-	-	-	-	-	22,513
Utility fees	-	96,165	-	-	1,275	-	-	-	7,195	693,244
Penalties	-	591	-	-	-	-	-	-	-	5,731
Other receipts	267,239	3,363	25,918	-	-	-	397	11,048	-	556,029
Total receipts	267,239	100,119	25,918	-	1,275	-	397	11,048	7,195	1,422,122
Disbursements:										
Personal services	-	-	-	-	-	-	-	-	-	122,901
Supplies	-	-	-	-	-	-	-	-	-	19,463
Other services and charges	-	-	-	-	-	-	-	-	-	47,349
Capital outlay	-	2,903	-	-	-	-	-	-	-	32,182
Utility operating expenses	-	67,554	-	-	-	-	-	9,767	1,781	539,885
Other disbursements	267,239	27,778	5,877	-	369	-	-	-	-	475,877
Total disbursements	267,239	98,235	5,877	-	369	-	-	9,767	1,781	1,237,657
Excess (deficiency) of receipts over disbursements	-	1,884	20,041	-	906	-	397	1,281	5,414	184,465
Cash and investments - ending	\$ -	\$ 3,807	\$ 26,069	\$ 43	\$ 8,711	\$ 11,436	\$ 23,086	\$ 1,281	\$ 5,414	\$ 464,371

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TOWN OF CHALMERS
 SCHEDULE OF LEASES AND DEBT
 December 31, 2012

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Wastewater Utility: Revenue bonds	Sewage Utility System Improvements	\$ 783,855	\$ 89,699
Water Utility: Revenue bonds	Waterworks Utility Improvements	267,724	23,278
Totals		<u>\$ 1,051,579</u>	<u>\$ 112,977</u>

TOWN OF CHALMERS
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statement presented in this report included the following funds with overdrawn cash balances at December 31, 2011 and 2012:

Fund	Amount Overdrawn
Electric Utility Operating - 2011	\$ (164,800)
Electric Utility Operating - 2012	(80,337)

A similar comment was in the prior Report B38696.

The 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)

ANNUAL REPORT

The Annual Reports for 2011 and 2012 were not filed with the state examiner timely. Also the Form 100Rs for 2011 and 2012 were not filed with the state examiner timely. A similar comment was in the prior Report B38696.

Indiana Code 5-11-1-4 states:

"(a) The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7.

(b) The department of local government finance may not approve the budget of a political subdivision or a supplemental appropriation for a political subdivision until the political subdivision files an annual report under subsection (a) for the preceding calendar year."

Indiana Code 5-11-13-1 states in part:

"(a) 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. . . . The certification must be filed electronically in the manner prescribed under IC 5-14-3.8-7.

(b) The department of local government finance may not approve the budget of a county, city, town, or township or a supplemental appropriation for a county, city, town, or township until the county, city, town, or township files an annual report under subsection (a) for the preceding calendar year."

TOWN OF CHALMERS
AUDIT RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS - SEGREGATION OF DUTIES

The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties were not 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 was in prior Report B38696.

Indiana Code 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."

TOWN OF CHALMERS
AUDIT RESULTS AND COMMENTS
(Continued)

ORDINANCES AND RESOLUTIONS - PAYROLL

The Town's salary ordinance states in part: "Each full time employee will be paid \$5 per hour worked up to a maximum of \$10,000 per year for insurance." The Town did not pay insurance reimbursements based on the ordinance. Each employee was paid a total of \$10,000 regardless of number of hours worked. A similar comment was in prior Report B38696.

The Town's Clerk-Treasurer was not paid according to the salary ordinance. The 2011 salary ordinance established a salary of \$1,500 for services as the Clerk-Treasurer and \$26,460 for services as the Utility's billing clerk. The Clerk-Treasurer was paid \$26,460 in 2011. No payment was made for the \$1,500 due for services as Clerk-Treasurer. A similar comment was in prior Report B38696.

Some of the Town Council members were not paid according to the salary ordinance. The salary ordinance stated the Board was to be paid \$87 per Town Board meeting attended for the 2011 year. Two of the Board members were overpaid \$175 (two meetings), and one was overpaid \$87 (one meeting).

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)

BAD DEBTS AND UNCOLLECTIBLE ACCOUNTS

The Town does not have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. A similar comment was in prior Report B38696.

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. (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 not presented for audit. A similar comment was in prior Report B38696.

Indiana Code 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 ledgers, 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)

CONDITION OF RECORDS

Financial records presented for audit were incomplete and not reflective of the activity of the Town and Utility Funds. The records presented did not provide sufficient information to audit or establish beginning balances, receipts, disbursements, ending balances, or the accuracy or correctness of the transactions.

TOWN OF CHALMERS
AUDIT RESULTS AND COMMENTS
(Continued)

Some of the deficiencies include:

1. Posting errors
2. Checks and receipts not recorded in the proper amounts
3. Transactions recorded as "negative" receipts and disbursements

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Town did not have a proper system on internal controls in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The Town should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal controls in place that operates effectively, material misstatements of the SEFA could remain undetected.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE TOWN OF CHALMERS, WHITE COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the Town of Chalmers's (Town) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect its major federal program for the period of January 1, 2011 to December 31, 2012. The Town's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Town's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect its major federal program for the period of January 1, 2011 to December 31, 2012.

Report on Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the type of requirements that

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-3 to be a material weakness.

The Town's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

September 12, 2013

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the Town. The schedule and note are presented as intended by the Town.

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TOWN OF CHALMERS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Years Ended December 31, 2011 and 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-11	Total Federal Awards Expended 12-31-12
<u>Department of Housing and Urban Development</u>					
CDBG - State-Administered CDBG Cluster					
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	Office of Community and Rural Affairs				
Storm Water Improvement Project		14.228	DR2-09-095	\$ 995,000	\$ -
Waterworks Improvement Project		14.228	DR2-09-145	<u>662,761</u>	<u>267,239</u>
Total federal awards expended				<u>\$ 1,657,761</u>	<u>\$ 267,239</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF CHALMERS
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Chalmers and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of towns with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

TOWN OF CHALMERS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Disclaimed
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Program:

Name of Federal Program or Cluster

CDBG – State-Administered CDBG Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2012-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses in internal control and noncompliance with laws and regulations that could have a direct and material effect on determining financial statement amounts:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to the achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to occur and not be detected.

TOWN OF CHALMERS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statement and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements, including notes to the financial statement.
3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.
4. **Bank Reconciliations:** The Town's fiscal officer did not regularly reconcile the Town's fund balances to the bank balances as shown on monthly bank statements. Failure to perform these reconciliations could enable errors and irregularities to occur and not be detected.
5. **Condition of Records:** The Town's fiscal officer did not properly maintain the records required by Indiana statutes and compliance guidelines. There were numerous transactions that were not posted, others that were posted erroneously, and still others that were posted two and even three times. In addition, beginning balances for one year did not agree with ending balances for the prior year. As a result of the failure to properly maintain accounting records, the Town has received a disclaimer of opinion on its financial statement. The failure to properly maintain records represents material noncompliance at the financial statement level.

Indiana Code 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."

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)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF CHALMERS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2012-2 - INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Town did not have a proper system on internal controls in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The Town should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal controls in place that operates effectively, material misstatements of the SEFA could remain undetected.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-3 - INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO CDBG - STATE-ADMINISTERED CDBG CLUSTER

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program and
Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Federal Award Number and Year (or Other Identifying Number): DR2-09-095 and DR2-09-145

Pass-Through Entity: Office of Community and Rural Affairs

Management of the Town of Chalmers has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements that have a direct and material effect to the program: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Davis-Bacon Act; Equipment and Real Property Management; Matching, Level of Effort, Earmarking; Period of Availability of Federal Funds; Procurement and Suspension and Debarment; Reporting; and Special Tests and Provisions. The failure to establish an effective internal control system places the Town at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

TOWN OF CHALMERS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the Town.

We recommended that the Town's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.



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September 12, 2013

CORRECTIVE ACTION PLAN

Finding 2012-1, Internal Controls Over Financial Transactions and Reporting

Lack of Segregation of Duties: The Clerk-Treasurers office will review their office procedures and attempt to install duties that would involve, reviews of the work being performed by each of the office employees. However, the Town is a very small governmental unit and management has determined that the cost associated with employing the additional staff necessary to properly segregate the duties in the business office would outweigh the benefits of the stronger internal control structure. Management acknowledges and assumes the risk inherent with the current design of their business office.

Finding 2012-2, Internal Controls Over The Schedule Of Expenditures Of Federal Awards

Lack of Internal Controls for Schedule of Expenditures of Federal Awards (SEFA): The Town will review their procedures and establish an ongoing workpaper to account for all the Federal money received and expensed throughout the calendar year by CFDA number, program number, and fund number. This will help prevent missing any Federal money received or expensed for the SEFA schedule.

Finding 2012-3, Internal Controls Over Compliance Requirements That Have A Direct And Material Effect To Federal CDBG – State-Administered CDBG Cluster

Lack of Segregation of Duties: The Clerk-Treasurers office will review their office procedures and attempt to install duties that would involve, reviews of the work being performed by each of the office employees. However, the Town is a very small governmental unit and management has determined that the cost associated with employing the additional staff necessary to properly segregate the duties in the business office would outweigh the benefits of the stronger internal control structure. Management acknowledges and assumes the risk inherent with the current design of their business office.

Debra K Clawson

Debra K. Clawson, Clerk-Treasurer

Town of Chalmers

TOWN OF CHALMERS
EXIT CONFERENCE

The contents of this report were discussed on September 12, 2013, with Debra K. Clawson, Clerk-Treasurer; Joyce Delashmit, Deputy Clerk-Treasurer; and Marcus L. King, President of the Town Council. The officials concurred with our audit findings.