

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

AUDIT REPORT
OF

CONTROLLER
CITY OF ANDERSON
MADISON COUNTY, INDIANA

January 1, 2005 to December 31, 2005



FILED
08/24/2006

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CITY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Morris D. Long	01-01-05 to 12-31-06
Mayor	Honorable Kevin S. Smith	01-01-04 to 12-31-07
President of the Board of the Public Works	Robert Sparks	01-01-05 to 12-31-06
President of the Common Council	Rick Muir Rodney Chamberlain	01-01-05 to 12-31-05 01-01-06 to 12-31-06



STATE OF INDIANA
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TO: THE OFFICIALS OF THE CITY OF ANDERSON, MADISON COUNTY, INDIANA

We have audited the records of the Office of Controller for the period from January 1, 2005 to December 31, 2005, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments. The financial transactions of this office are reflected in the Comprehensive Annual Financial Report of the City of Anderson for the year 2005.

STATE BOARD OF ACCOUNTS

June 6, 2006

CONTROLLER
CITY OF ANDERSON
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were incorrect as presented for audit. We noted a difference of \$1,360.25 cash long at December 31, 2005. A similar comment appeared in the prior audit report.

Indiana Code 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."

CAPITAL ASSETS

During an audit of the capital asset records some problems were noted. The City did not capitalize all items as required by the City's policy. For example, the unit entered into capital lease agreements for various pieces of machinery and equipment. The corresponding assets were not added to the City's capital asset records at the present value amount as required. The present value of the equipment under capital lease acquired in 2005 totaled \$1,293,897.

Amounts capitalized to the utilities were not always identifiable with a specific asset. For example, capitalized interest was added to the records as a separate item and not linked with the assets constructed with the borrowed funds. Also, items held as construction in progress were not always transferred to the proper capital asset accounts when substantially complete. Moreover, it was noted that during the audit period items were capitalized which were beneath the \$5,000 threshold set out in the adopted capitalization policy.

A similar comment appeared in the prior audit report.

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

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals, and other publications. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

CONDITION OF RECORDS

The Cash Receipts, Disbursements and Balances report presented for audit was not always reflective of the activity of some funds. The report presented did not always agree with amounts reported in the City's annual report (CTAR) for some funds. A similar comment appeared in the prior audit report.

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)

CONTROLLER
CITY OF ANDERSON
AUDIT RESULTS AND COMMENTS
(Continued)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DEPRECIATION OF CAPITAL ASSETS

The total accumulated depreciation and depreciation expense reported at December 31, 2005, for the City was materially correct; however, several problems were noted with the depreciation on individual assets. Accumulated depreciation was incorrectly calculated for some assets. The computer software the unit uses calculated the depreciation on the assets. The software uses straight-line depreciation, but it does not take a full year of depreciation in the year of acquisition as the unit's policy states. Additionally, some assets were noted that were not being depreciated at all. Most of these items noted were correctly identified in the unit's computer system as depreciable items; however, no depreciation expense was taken in 2005 and no accumulated depreciation was noted on these assets. Several items were also noted that had negative depreciation expense for 2005 and negative accumulated depreciation.

No documentation was provided by the unit which reflected reductions of accumulated depreciation relating to asset disposals during 2005 for City assets.

Additionally, the method of depreciation used by the utilities is the straight-line method. However, the approved capitalization policy indicates that the Utilities use the composite rate method of depreciation.

Several of the items noted above as being depreciated incorrectly were recurring problems from 2004. Failure by the unit to correct these problems could over time reduce the reliability of financial data resulting in an audit opinion other than unqualified.

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)

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals, and other publications. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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).

OVERDRAWN CASH BALANCES

The cash balance of the COIT Principal and Interest Fund was overdrawn during 2005 and had an overdrawn balance of \$26,894 at year end.

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)

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EXIT CONFERENCE

The contents of this report were discussed on June 29, 2006, with Morris D. Long, Controller; and Honorable Kevin S. Smith, Mayor. The officials concurred with our audit findings.