

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

EXAMINATION REPORT
OF
TOWN OF GOSPORT
OWEN COUNTY, INDIANA
January 1, 2003 to December 31, 2005



FILED
09/13/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Michelle Seidenstucker	01-01-00 to 12-31-03
	Jodi Hester	01-01-04 to 05-01-06
	Vacant	05-02-06 to 05-31-06
	Wyatt Holsapple	06-01-06 to 12-31-07
President of the Town Council	Chris Wesley	01-01-03 to 12-31-03
	Bill Arnold	01-01-04 to 05-31-04
	Vacant	06-01-04 to 07-05-04
	Tammy Rogers	07-06-04 to 12-31-06



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF GOSPORT, OWEN COUNTY, INDIANA

We were engaged to examine the financial statements of the Town of Gosport (Town), for the period of January 1, 2003 to December 31, 2005. The Town's management is responsible for the financial statements.

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

No financial statements are reflected in this report because records were not in the proper condition or not available to examine. However, we did examine available records to the extent possible for compliance with the State statutes and with the Accounting and Uniform Compliance Guidelines Manual for Cities and Towns published by the State Board of Accounts. The results of this examination are stated in the Examination Results and Comments.

Because of the restrictions on our examination as discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on whether financial statements referred to above present fairly, in all material respects, the cash transactions of the Town and Utilities for the years ended December 31, 2003, 2004, and 2005, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

June 22, 2006

TOWN OF GOSPORT
EXAMINATION RESULTS AND COMMENTS

SALARY OVERPAYMENT- TOWN

In 2004, Michelle Seidenstucker, former Clerk-Treasurer, received \$1,020 for vacation pay and in 2005, Jodi Hester, former Clerk-Treasurer received \$1,491 for vacation and holiday pay. These payments were in addition to the approved salary per the salary ordinances. The Clerk-Treasurers did not maintain required detailed attendance records disclosing days worked, days missed, type of leave taken, etc., and would therefore not be entitled to vacation or holiday pay. Also, the personnel policy for the Town of Gosport states in section 2.5.5, "Employees shall not be granted pay in lieu of vacation." Michelle Seidenstucker and Jodi Hester, former Clerk-Treasurers, were requested to reimburse the \$1,020 and \$1,491, respectively, to the Town. (See Summary, page 12)

An elected official's compensation goes with the office. This means that the elected official receives his (or her) salary as long as the office to which the official was elected performs the duties and responsibilities of this office. Whether the elected official personally does the work, whether the elected official personally maintains office hours, or whether the elected official shows up at the office has no bearing on the official's right to be compensated. Keep in mind this relates only to elected officials. The ghost employee statute, Indiana Code 35-44-2-4, prohibits payment to other city or town employees if they did not properly perform city or town duties assigned and maintain hours as directed by the proper governing body.

In those few instances where elected officials choose to be included in an employee benefit policy (and were included in the authorizing ordinance), the officials must maintain proper attendance records (the same as all other city and town employees) which shall clearly disclose days worked, days missed, type of leave taken, etc. This decision certainly cannot be made just prior to the close of the official's term. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 61)

CONDITION OF RECORDS - TOWN AND UTILITIES

The following deficiencies relating to the recordkeeping were observed during our period of examination:

- (1) Accounts Payable Vouchers (Town Form 39) were not filed in numerical order.

After accounts payable vouchers have been completely processed, allowed, and warrants issued they should be filed numerically and maintained with the applicable Accounts Payable Voucher Register, General Form 364. (Accounting and Uniform Compliance Guide Manual for Cities and Towns, Chapter 4)

- (2) Receipts were not issued and ledgers were not maintained during the period examined. 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. Transactions and balances for the Law Enforcement Continuing Education Fund and the Fire Donation Fund were not separately identified from other Town monies.

- (3) Some voided checks were not retained for audit.

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)

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)

TOWN OF GOSPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

PUBLIC RECORDS RETENTION – TOWN AND UTILITIES

Town and Utility records from 2003, could not be located and were not presented for examination. Some records relating to customer billings, adjustments, accounts receivable control accounts and accounts receivable balances for 2004 and 2005 were not presented for examination. These records were computer generated and could not be reproduced.

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS - TOWN

As previously reported in Audit Report B21785, the Town does not maintain an inventory of capital assets. Preliminary steps have been taken to inventory capital assets and accumulate the required information, but the records remain incomplete. The Town Council has not established a capitalization policy.

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)

Each city or town should establish a capitalization policy that sets a dollar amount as a threshold to be used in determining which equipment items will be recorded. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS AND DEPRECIATION POLICY - UTILITIES

As previously reported in Audit Report B21785, the Utilities do not maintain detailed records of capital assets for their Utility Plant in Service accounts. Preliminary steps have been taken to inventory capital assets and accumulate the required information, but the records remain incomplete. Also, the Town does not have a depreciation policy.

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)

Generally Accepted Accounting Principles require Utility Plant in Service records to be properly maintained by the Utility. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 51)

TOWN OF GOSPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

PAYROLL DEDUCTIONS - TOWN

Payments were made to some employees without payroll deductions for taxes.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PAYROLL FUND, PAYROLL WITHHOLDINGS, EMPLOYER TAXES
AND EMPLOYEE BENEFITS – TOWN AND UTILITIES

As previously reported in Audit Report B21785, the Town has established a payroll fund to account for all payroll, payroll withholdings, employer taxes, and employee benefits. Transfers to the payroll fund from the various departments of the Town are made without the completion of a Payroll Schedule and Voucher or General Form 99 covering the personal services of that office or department. The balance of the payroll fund is not reconciled to the amounts due to taxing authorities and other vendors. Subsidiary ledger accounts are not maintained for each type of payroll withholding, employer tax, and employee benefit or net payroll.

In order to simplify the handling of withholdings from employees' salaries and wages this department approves of the use of a "Payroll Fund" where the number of employees will justify it. If the local officials decide to establish a "Payroll Fund," the following procedures should be used in connection with such fund.

1. "Payroll Fund" is to be printed or typed on each payroll warrant.
2. Each office and department (including utilities if the Clerk-Treasurer is responsible for detail utility records) shall submit a payroll schedule and voucher on General Form 99, covering the personal services of that office or department. This form shall include all compensation of the office or department, including salary and wages of the officer, deputies, clerks and other employees. Supplemental records such as time cards, daily logs, and other such supporting records may be prepared and maintained.
3. The individual payrolls will be summarized by the Clerk-Treasurer for each fund, using Form 99, but indicating "SUMMARY" on the form. This will compile in total the payrolls for all offices and departments in each fund for each payroll period. Show the payroll claim number in the column headed "Class Title", and the name of the office or department in the column headed "Name of Employee."
4. Total the payroll "SUMMARY" for each fund and issue a regular city or town warrant from such fund for the total gross pay and receipt this amount into the payroll fund.
5. Issue payroll warrants from the payroll fund based upon the information on the individual payroll schedules and vouchers submitted by each office and department. Each warrant must be completed in full, showing the gross pay and applicable payroll deductions. It is not necessary to indicate on the payroll warrant the appropriation account to which the warrant is chargeable.

TOWN OF GOSPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

6. Payroll deductions will be accumulated in the payroll fund, and then disbursed from this fund at the proper time to the various receiving agencies by payroll warrants. It is suggested the payroll fund ledger sheet be supported by subsidiary ledger sheets for each type of payroll deduction in order to see that no unidentified balance is allowed to accumulate in the payroll fund.
7. At the close of each pay period the payroll warrants for the period should be totaled and proved to the totals of the payroll summaries for the period. Enter the total of the payroll warrants for the period on the payroll warrant register immediately after the last warrant issued, showing separately the totals of gross pay, each of the payroll deduction columns, and the net amount of the payroll warrants. These totals may then be posted to a "Control Account" in the Employee's Earnings Record, Form 99B, thereby furnishing a proof of postings to this record.
8. Posting to appropriation accounts is to be made from the individual payroll schedules and vouchers for the gross amount of the pay. Posting to the respective fund accounts is to be made from the regular city or town warrants issued for transfer of funds to the payroll fund. The totals of amounts posted to the appropriation accounts and the respective fund accounts must agree. Posting to the payroll fund is to be made from the payroll warrants.
9. The individual office or department payroll schedules and vouchers are to be filed in the regular manner. The payroll summaries are to be filed in good order in a suitable post binder. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 38)

At all times, the manual and 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)

PRESCRIBED FORMS – TOWN AND UTILITIES

As previously reported in Audit Report B21785, the following prescribed or approved forms were not always in use, Payroll Schedule and Voucher (General Form 99), Employee's Service Record (General Form 99A), Employee's Earnings Record (General Form 99B), Register of Investments, (General Form 350), Clerk-Treasurer's, City Controller's and City Treasurer's Monthly Financial, Depository Statement and Cash Reconciliation (City and Town Form 206), Ledger of Receipts, Disbursements and Balances (City and Town Form 208), Ledger of Appropriations, Encumbrances, Disbursements and Balances (City and Town Form 209), General Fixed Assets Account Group (City and Town Form 211), Treasurer's Daily Balance of Cash, Depositories and Investments (City and Town Form 212), Guarantee Deposit Receipt (Utility Form 310), Guarantee Deposit Register (Utility Form 319), Simplified Cash Journal - Water Utility - Class C (Utility Form 319), and Simplified Cash Journal - Wastewater Utility - Class C (Utility Form 323).

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)

TOWN OF GOSPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

SAVINGS INCENTIVE MATCH PLAN FOR EMPLOYEES – INDIVIDUAL
RETIREMENT ACCOUNT PLAN – TOWN AND UTILITIES

As previously reported in Audit Report B21785 the Town has a Savings Incentive Match Plan for Employees (SIMPLE) Individual Retirement Account (IRA) Plan for employees. The Town provides matching contributions to this plan up to 3% of gross wages. In 2005, the Town and Utilities contributed total matching funds of \$1,620 to this plan.

In reviewing the Indiana Code, the following pension plans are available to employees of a city or town. Pursuant to Indiana Code 5-10.2-2-1, a city or town does not have authority to establish a pension plan by ordinance, resolution, or contract after January 1, 1995, without specific statutory authority.

Public Employees' Retirement Fund 5-10.3
Municipal Utility Employees' Pension Fund 8-1.5-3-7
Deferred Compensation 5-10-1.1

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

LIST OF EMPLOYEES NOT FILED WITH COUNTY TREASURER - TOWN

Some officials or employees of the Town had money due from the Town, but a list of such employees was not certified to the County Treasurer.

Indiana Code 6-1.1-22-14(a) states, in part: "on or before June 1 and December 1 of each year . . . the disbursing officer of each political subdivision . . . shall certify the names and addresses of each person who has money due from the political subdivision to the treasurer of each county in which the political subdivision is located."

CERTIFIED REPORT NOT FILED - TOWN

The Town did not file a certified report of compensation of officers and employees (Form 100-R or its equivalent) with the State Board of Accounts for the years 2003, 2004, and 2005.

Indiana Code 5-11-13-1 states, in part: "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."

TRANSACTION ERRORS - UTILITIES

The December 31, 2005, Water Utility bond payment of \$39,323 was paid from the Wastewater Operating Fund in error. Also in 2005, a \$1,500 Customer Deposit Fund certificate of deposit was cashed on maturity and deposited to the Water Operating Fund instead of the Customer Deposit Fund.

Payments or transfers which are not authorized by statute, ordinance or resolution must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF GOSPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

UTILITY RECEIPTS TAX – WATER UTILITIES

The Water Utility did not pay Utility Receipts Tax to the Indiana Department of Revenue during the audit period. This condition was previously reported in Audit Report B21785.

Generally, retail receipts from all utility services consumed within Indiana are subject to the utility receipts tax regardless of the point of generation or transmission across state lines. Receipts from the provision of mobile telecommunication service are subject to utility receipts tax to the extent that the receipts are sourced to Indiana pursuant to IC 6-8.1-15. However, gross receipts received by a political subdivision for sewage and sewage service are not subject to the tax. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SALES TAX – WATER UTILITIES

The Water Utility did not remit sales tax for utility services to the Indiana Department of Revenue for December 2003, January through April 2004, and May through October 2005, until November 2005. It cannot be determined from available records if the remaining months of 2004 and 2005 have been paid.

Collections by a city or town from the retail sale of tangible property, utility service, or commodities in the performance of private or proprietary activities are subject to sales tax. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All questions concerning the law or procedure for paying and collecting sales tax should be directed to the Indiana Department of Revenue, Sales Tax Division. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WASTEWATER PENALTIES – WASTEWATER UTILITY

As previously reported in Audit Report B21785, the Wastewater Utility is not assessing penalties on delinquent wastewater accounts.

Indiana Code 36-9-23-31 states in part: "If fees assessed . . . are not paid within the time fixed by the municipal legislative body, they are delinquent. A penalty of ten percent (10%) of the amount of the fees attaches to the delinquent fees."

PENALTIES, INTEREST AND OTHER CHARGES - TOWN

A review of remittance of payroll withholdings, sales tax and employer tax indicated 2003, 2004, and 2005 taxes due the Indiana Department of Revenue and Internal Revenue Service were not disbursed in a timely fashion. The amount of penalties and interest assessed the Town due to these late payments could not be determined. All supporting documentation for the disbursements could not be located.

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.

TOWN OF GOSPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

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)

DISTRIBUTION OF GROSS REVENUES TO THE VARIOUS FUNDS - UTILITIES

As stated in the prior Audit Report B21785, gross revenues were not being distributed to the various utility funds in accordance with Revenue Bond Ordinances 7-6-93 and 08-08-00.

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)

CUSTOMER DEPOSIT REGISTER – WATER UTILITY

As reported in prior Audit Report B21785, the Town does not maintain the "Guarantee Deposit Register" (Utility Form 316) or any other detailed record of customer meter deposits. The balance in the meter deposit fund at December 31, 2005, was \$23,609.

At all times, the manual and 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)

DEPOSITS – TOWN AND UTILITIES

As stated in the prior Audit Report B21785, in numerous instances, receipts were deposited later than the next business day.

Indiana Code 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

TOWN OF GOSPORT
EXIT CONFERENCE

The contents of this report were discussed on June 22, 2006, with Tammy Rogers, President of the Town Council; and Joe King, Town Council Member.

The contents of this report were discussed on June 26, 2006, with Jodi Hester, former Clerk-Treasurer.

Michelle Seidenstucker, former Clerk-Treasurer was not available to discuss the contents of this report.

TOWN OF GOSPORT
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Jodi Hester, former Clerk-Treasurer: Salary Overpayment, page 4	\$ 1,491	\$ -	\$ 1,491
Michelle Seidenstucker, former Clerk-Treasurer: Salary Overpayment, page 4	<u>1,020</u>	<u>-</u>	<u>1,020</u>
Totals	<u>\$ 2,511</u>	<u>\$ -</u>	<u>\$ 2,511</u>

AFFIDAVIT

STATE OF INDIANA)
)
OWEN COUNTY)

I Sharon Coopriden, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the Town of Gosport, Owen County, Indiana, for the period from January 1, 2003 to December 31, 2005, is true and correct to the best of my knowledge and belief.

Sharon Coopriden
Field Examiner

Subscribed and sworn to before me this 14 day of Aug., 2006.

Rich Roberts
Clerk of the Circuit Court