

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

EXAMINATION REPORT
OF
TOWN OF PATRIOT
SWITZERLAND COUNTY, INDIANA
January 1, 2003 to December 31, 2005



FILED
10/04/2006

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Pamela Hutchinson	01-01-00 to 12-31-07
President of the Town Council	Gordon W. Turner James Caudill	01-01-03 to 12-31-03 01-01-04 to 12-31-06
Superintendent of Utilities	Sherry L. Ogden	01-01-03 to 12-31-06



STATE OF INDIANA
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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF PATRIOT, SWITZERLAND COUNTY, INDIANA

We have examined the schedules of receipts, disbursements, and cash and investment balances of the Town of Patriot (Town), for the period of January 1, 2003 to December 31, 2005. The Town's management is responsible for the schedules. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the schedule of receipts, disbursements, and cash and investment balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedules referred to above present fairly, in all material respects, the cash transactions of the Town 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

September 5, 2006

TOWN OF PATRIOT
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL AND PROPRIETARY FUND TYPES
As Of And For The Years Ended December 31, 2003, 2004, And 2005

	Cash and Investments 01-01-03	Receipts	Disbursements	Cash and Investments 12-31-03
Governmental Funds:				
General	\$ 7,630	\$ 26,383	\$ 24,770	\$ 9,243
Motor Vehicle Highway	18,065	6,017	8,000	16,082
Local Road and Street	2,720	1,015	1,625	2,110
Memorial Park	45	-	-	45
Town Hall Rental	425	125	100	450
Riverboat	14,358	375,499	371,196	18,661
Cumulative Capital Improvement	6,304	730	-	7,034
Proprietary Funds:				
Water Utility - Operating	48,865	1,076,662	1,110,308	15,219
Water Utility - Bond and Interest	319,298	218,254	262,960	274,592
Water Utility - Depreciation	201,003	1,120	146,502	55,621
Water Utility - Debt Service	312,842	5,416	-	318,258
Wastewater Utility - Operating	9,481	32,773	36,364	5,890
Wastewater Utility - Bond and Interest	7,197	9,037	11,710	4,524
Wastewater Utility - Debt Service	12,486	52	-	12,538
Totals	\$ 960,719	\$ 1,753,083	\$ 1,973,535	\$ 740,267
	Cash and Investments 01-01-04	Receipts	Disbursements	Cash and Investments 12-31-04
Governmental Funds:				
General	\$ 9,243	\$ 23,853	\$ 26,095	\$ 7,001
Motor Vehicle Highway	16,082	6,279	1,238	21,123
Local Road and Street	2,110	1,081	1,749	1,442
Memorial Park	45	20	-	65
Town Hall Rental	450	180	440	190
Riverboat	18,661	363,866	326,117	56,410
Rainy Day	-	1,228	-	1,228
Cumulative Capital Improvement	7,034	754	-	7,788
Proprietary Funds:				
Water Utility - Operating	15,219	1,409,344	1,393,210	31,353
Water Utility - Bond and Interest	274,592	312,936	262,850	324,678
Water Utility - Depreciation	55,621	411	-	56,032
Water Utility - Debt Service	318,258	2,075	-	320,333
Water Utility - Construction	-	454,807	304,155	150,652
Water Utility - Escrow	-	10,983	-	10,983
Wastewater Utility - Operating	5,890	32,175	26,404	11,661
Wastewater Utility - Bond and Interest	4,524	10,819	11,560	3,783
Wastewater Utility - Debt Service	12,538	38	-	12,576
Totals	\$ 740,267	\$ 2,630,849	\$ 2,353,818	\$ 1,017,298
	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 7,001	\$ 22,783	\$ 24,969	\$ 4,815
Motor Vehicle Highway	21,123	6,142	-	27,265
Local Road and Street	1,442	1,074	1,788	728
Memorial Park	65	-	-	65
Town Hall Rental	190	250	-	440
Riverboat	56,410	352,817	107,845	301,382
Rainy Day	1,228	-	551	677
July 4 Donation	-	1,000	-	1,000
Cumulative Capital Improvement	7,788	625	-	8,413
Proprietary Funds:				
Water Utility - Operating	31,353	1,403,399	1,404,142	30,610
Water Utility - Bond and Interest	324,678	317,354	262,626	379,406
Water Utility - Depreciation	56,032	851	-	56,883
Water Utility - Debt Service	320,333	2,088	-	322,421
Water Utility - Construction	150,652	299,188	449,840	-
Water Utility - Escrow	10,983	21,027	32,010	-
Wastewater Utility - Operating	11,661	30,137	33,086	8,712
Wastewater Utility - Bond and Interest	3,783	11,018	11,410	3,391
Wastewater Utility - Debt Service	12,576	38	-	12,614
Totals	\$ 1,017,298	\$ 2,469,791	\$ 2,328,267	\$ 1,158,822

The accompanying notes are an integral part of the schedules.

TOWN OF PATRIOT
NOTES TO SCHEDULES

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety; highways and streets; sanitation; culture and recreation; public improvements; general administrative services; water; and wastewater.

Note 2. Fund Accounting

The Town uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Town in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the Town on or prior to December 31 of the year collected.

TOWN OF PATRIOT
NOTES TO SCHEDULES
(Continued)

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 6. Long-Term Debt

The Town has entered into various debts such as revenue bonds for the Water and Wastewater Utilities and a loan for the Water Utility. The outstanding principal at December 31, 2005, was \$3,438,000 and \$165,200, for the Water and Wastewater bonds, respectively; and \$490,735 for the Water Utility loan.

Note 7. Riverboat Fund Receipts

The Town receives Riverboat distributions from Switzerland County, Belterra Casino, and the City of Rising Sun. In 2003, 2004, and 2005, the Town received \$368,560, \$358,791, and \$348,887 respectively, in Riverboat receipts. Riverboat receipts accounted for 90%, 90%, and 91% of all governmental receipts in 2003, 2004, and 2005, respectively.

Note 8. Subsequent Event

On August 4, 2006, the Water Utility received a \$5,989,000 loan from the State Revolving Loan Fund for partial funding of a \$6,025,000 project for improvements to the water distribution system. Construction for the project is scheduled to begin in September 2006.

TOWN OF PATRIOT
EXAMINATION RESULTS AND COMMENTS

CAPITAL ASSET RECORDS (Applies to Clerk-Treasurer)

The Town and its Utilities do not maintain sufficient detailed records of capital assets.

A similar comment was included in the previous Audit Report 22476.

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)

DELINQUENT WASTEWATER ACCOUNTS (Applies to Wastewater Utility)

Our examination of the Wastewater Utility revealed delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

A similar comment was included in the previous Audit Report 22476.

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; or
- (2) an individual instrument for each lot or parcel of real property on which the fees are delinquent."

"(c) The officer shall record a copy of each list or each individual instrument with the county recorder . . ."

"(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

TOWN OF PATRIOT
EXAMINATION RESULTS AND COMMENTS
(Continued)

CERTIFIED REPORT OF NAMES, ADDRESSES, DUTIES
AND COMPENSATION (Applies to Clerk-Treasurer)

Certified Report of Names, Addresses, Duties and Compensation of Public Employees, Form 100-R, was not filed with the State Board of Accounts for the years 2003, 2004 and 2005.

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)

PUBLIC WORKS PROJECTS (Applies to Town Council)

The Town Council awarded the following public works contracts based on invited quotes and not sealed bid:

- (1) July 9, 2003, \$73,000 for installation of a computerized water tank monitoring system;
- (2) March 15, 2005, \$25,570 for waterline replacement
- (3) May 14, 2003, \$28,775 for replacement of a wastewater lift station

A similar comment was included in the previous Audit Report 22476.

Indiana Code 36-1-12-4(a) states in part: "This section applies whenever the cost of a public work project will be: . . . at least twenty-five thousand dollars (\$25,000) . . ."

Indiana Code 36-1-12-4(b) states in part: "The board must comply with the following procedure: (1) The board shall prepare general plans and specifications describing the kind of public work required, but shall avoid specifications which might unduly limit competition. . . . (2) The board shall file the plans and specifications in a place reasonably accessible to the public, which shall be specified in the notice required by subdivision (3). (3) Upon the filing of the plans and specifications, the board shall publish notice in accordance with IC 5-3-1 calling for sealed proposals for the public work needed. . . ."

EXPENSES UNRELATED TO GOVERNMENTAL FUNCTIONS (Applies to Town Council)

Town Council approved the purchases of items which were to be given away or to help fund events outside the Town. Items purchased which were given away to private residents included trees, flags, and food. The Town also gave a donation to help fund a Switzerland County High School After-Prom event.

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF PATRIOT
EXAMINATION RESULTS AND COMMENTS
(Continued)

DONATIONS (Applies to Town Council)

The Town Council authorized payments of donations of \$5,000 from the Town funds to the United Fund, Inc., in the year 2004 and the year 2005.

Governmental funds should not be donated or given to other organizations, individuals, or governmental units unless specifically authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CREDIT CARDS (Applies to Town Council)

According to minutes of the January 20, 2004, meeting, the Town Council authorized the use of several different credit cards for fuel, office supplies, and other Town related purchases; however, they have not passed an ordinance or a resolution establishing a credit card policy.

A similar comment was included in the previous Audit Report 22476.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.

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

TOWN OF PATRIOT
EXAMINATION RESULTS AND COMMENTS
(Continued)

ANNUAL REPORTS (Applies to Clerk-Treasurer)

In reviewing the Annual City and Town Financial Reports, Form CTAR-1, (Report) for each of the years in the examination period the following exceptions were noted:

- (1) The 2003 Report which was completed November 21, 2005, was not filed with the State Board of Accounts and was not published timely. The 2003 Report presented for examination did not contain the beginning balance or financial activity for the Town Hall Rental Fund or the Water Depreciation Fund in Part 1- Statement of Receipts, Disbursements, Cash Balances, and Investment Balances (Including Utilities).
- (2) The 2004 Report which was not completed until November 20, 2005, was not published timely. The 2004 Report presented for examination excluded balances and financial activity of the Town Hall Rental Fund, the Memorial Park Fund, the Rainy Day Fund and the Cumulative Capital Improvement Fund. Also, the 2004 Report did not include the receipts and disbursements from a Water Utility planning grant in the Water Utility funds.
- (3) The 2005 Report did not include the balances and financial activity for the Town Hall Rental Fund, the Memorial Park Fund, the Rainy Day Fund, the July Donation Fund and the Cumulative Capital Improvement Fund. In addition, the ending balance for the General Fund on the report did not agree with the ending balance in the ledger.

Indiana Code 5-3-1-3(a) states in part: "Within sixty (60) days after the expiration of each calendar year, the fiscal officer of each civil city and town in Indiana shall publish an annual report of the receipts and expenditures of the city or town . . ."

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

OPTICAL IMAGES OF WARRANTS (Applies to Clerk-Treasurer)

One financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned only an optical image of the front side of the checks.

Indiana Code 5-15-6-3 concerning optical imaging of checks states in part:

"(a) . . . "original records" . . . includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

Further, Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

TOWN OF PATRIOT
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise: and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

EMPLOYEE PERSONAL EXPENSE RECORDKEEPING (Applies to Water Utility)

The Town provides cell phones to some utility employees. The employees have use of the cell phones during normal working hours and outside of normal working hours. Cell phone logs showing personal and business use of the phones are not maintained.

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Assets of the governmental unit may not be used in a manner unrelated to the functions and purposes of the governmental unit.

Whenever an item or other assets owned by the political subdivision is entrusted to an officer or employee, to be used at times outside the normal work time for business purposes, such as cellular phone, or vehicle, a log should be maintained which clearly shows the business use. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COMPENSATION AND BENEFITS (Applies to the Clerk-Treasurer and the Town Council)

The following exceptions were noted in the review of employee compensation and benefits:

- (1) For the period of examination, there were no annual salary ordinances presented for audit. Instead, the approved salaries for existing employee positions were set by percentage increases approved in the annual budgets. Generally, when a new position was created, Town Council established compensation for the new position by resolution as documented in Council minutes. In the April 19, 2005, Town Council minutes it was noted that the Council approved the hiring of a new Town employee with the minutes stating: "Hourly wage will be left to the Clerk to decide."

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

- (2) All compensation paid to the Utility Superintendent and Deputy Clerk-Treasurers is paid by the Water Utility. The Utility Superintendent performed duties for both the Water Utility and the Wastewater Utility. The Deputy Clerk-Treasurers perform duties for the Town and the Wastewater Utility as well as the Water Utility.

TOWN OF PATRIOT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. The cost of shared employees and equipment by two (2) or more utilities or with the city or town should be prorated in a rational manner. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 61)

- (3) Compensation paid to the Town Council members is not processed through the Town's payroll system; therefore, no appropriate payroll taxes are withheld. Also, their compensation is reported at year-end on Internal Revenue Service Form 1099s, instead of Internal Revenue Service Form W-2s.
- (4) The Clerk-Treasurer received compensation from the Water Utility without deductions for social security payroll taxes. Also, the Clerk-Treasurer received an annual payment of \$360 in 2005 from the Town funds which was not processed through the Town's payroll. As a result, no appropriate payroll or income taxes were withheld and the compensation was not reported as wages to the Internal Revenue Service or Indiana Department of Revenue.

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)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OFFICIAL BOND (Applies to Clerk-Treasurer)

The official bond for the Clerk-Treasurer for the term beginning January 1, 2004, was not filed in the office of the County Recorder.

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder. . . ."

LIST OF EMPLOYEES NOT FILED WITH COUNTY TREASURER (Applies to Clerk-Treasurer)

Lists of employees were not certified to the County Treasurer for the year examined.

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."

TOWN OF PATRIOT
EXIT CONFERENCE

The contents of this report were discussed on September 5, 2006, with Pamela Hutchinson, Clerk-Treasurer, who concurred with our findings.