

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

EXAMINATION REPORT
OF
TOWN OF MARENGO
CRAWFORD COUNTY, INDIANA
January 1, 2005 to December 31, 2006



FILED
07/06/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report	3
Financial Information:	
Schedules of Receipts, Disbursements, and Cash and Investment Balances	4
Notes to Financial Information.....	5
Supplementary Information:	
Schedule of Capital Assets	6
Schedule of Long-Term Debt.....	7
Examination Results and Comments:	
Condition of Records	8
Errors on Claims	9
Financial Report Opinion Modification	9
Cash Necessary to Balance, Bank Reconciliations	10
Penalties, Interest and Other Charges	10
Appropriations.....	11
Blank Check Disbursements.....	11
Optical Images of Warrants	11-12
Federal and State Agencies – Compliance Requirements	12
Customer Deposit Register.....	12
Investment Maturity Limitations	13
Compensation and Benefits.....	13
Service and Time Records	13
Exit Conference.....	14
Summary	15

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Roscoe Hooten	01-01-04 to 06-16-06
	Position Vacant	06-17-06 to 06-22-06
	Russell W. Beals	06-23-06 to 07-15-06
	Teri Hosier	07-16-06 to 12-31-07
President of the Town Council	John R. Pierson	01-01-05 to 12-31-07
Superintendent of Wastewater Utility	Anthony Kay	01-01-05 to 04-04-06
	Position Vacant	04-05-06 to 06-25-06
	Kenneth Hunt	06-26-06 to 12-31-07
Town Manager	Jason Atwood	01-01-05 to 06-25-06
	Position Vacant	06-26-06 to 06-14-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF MARENGO, CRAWFORD COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Marengo (Town), for the period of January 1, 2005 to December 31, 2006. The Town's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Except as discussed in the third paragraph, our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

The condition of the records for the Town for the period January 1, 2004 to December 31, 2004, made it impossible to conduct a financial audit for that period. Since a financial audit was not conducted for that period, there are some uncertainties as to the accuracy of the beginning cash and investment balances of the governmental, fiduciary, and proprietary funds of the Town.

In our opinion, except for the effects, if any, of the uncertainty of the accuracy of beginning balances as described in the above paragraph, the financial information referred to above presents fairly, in all material respects, the financial information of the Town for the years ended December 31, 2005 and 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information, and accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

June 14, 2007

TOWN OF MARENGO
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Years Ended December 31, 2005 And 2006

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ (38,736)	\$ 154,026	\$ 105,951	\$ 9,339
Motor Vehicle Highway	15,399	20,059	13,217	22,241
Local Road and Street	8,937	3,413	10,169	2,181
Park and Recreation	8,304	11,622	14,838	5,088
Law Enforcement Continuing Education	(404)	1,794	892	498
Riverboat	73,876	77,336	110,147	41,065
Rainy Day	-	57	-	57
Donation	1,204	4,689	5,873	20
Industrial Park	7,809	-	-	7,809
Cemetery	7,176	2,274	6,988	2,462
Park Grant	215	36,000	36,000	215
Emergency/Disaster	(21,458)	52,950	18,620	12,872
Cumulative Capital Improvement	16,177	-	16,177	-
Economic Development Income Tax	41,755	22,456	170	64,041
Proprietary Funds:				
Wastewater Utility - Operating	85,377	165,802	249,676	1,503
Wastewater Utility - Bond and Interest	57,240	30,000	27,100	60,140
Wastewater Utility - Debt Reserve	25,862	1,438	-	27,300
Wastewater Utility - Customer Deposit	2,217	4,819	2,503	4,533
Wastewater Utility - Construction	8,597	-	-	8,597
Fiduciary Fund:				
Payroll	(1,557)	160,019	155,634	2,828
Totals	<u>\$ 297,990</u>	<u>\$ 748,754</u>	<u>\$ 773,955</u>	<u>\$ 272,789</u>

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 9,339	\$ 97,834	\$ 90,337	\$ 16,836
Motor Vehicle Highway	22,241	30,231	24,814	27,658
Local Road and Street	2,181	3,669	1,870	3,980
Park and Recreation	5,088	9,110	11,379	2,819
Law Enforcement Continuing Education	498	2,128	802	1,824
Riverboat	41,065	90,517	76,979	54,603
Rainy Day	57	-	-	57
Donation	20	3,316	2,879	457
Industrial Park	7,809	-	-	7,809
Cemetery	2,462	5,290	7,752	-
Park Grant	215	-	-	215
Emergency/Disaster	12,872	-	12,872	-
Economic Development Income Tax	64,041	25,101	20,022	69,120
Proprietary Funds:				
Wastewater Utility - Operating	1,503	164,737	160,419	5,821
Wastewater Utility - Bond and Interest	60,140	30,000	26,500	63,640
Wastewater Utility - Debt Reserve	27,300	-	-	27,300
Wastewater Utility - Customer Deposit	4,533	2,500	1,950	5,083
Wastewater Utility - Construction	8,597	-	-	8,597
Fiduciary Fund:				
Payroll	2,828	118,190	116,212	4,806
Totals	<u>\$ 272,789</u>	<u>\$ 582,623</u>	<u>\$ 554,787</u>	<u>\$ 300,625</u>

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

TOWN OF MARENGO
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety, highway and streets, culture and recreation, public improvements, general administrative services, 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.

Note 5. Deposits and Investments

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

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

TOWN OF MARENGO
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 67,450
Buildings	12,755
Improvements other than buildings	49,881
Machinery and equipment	<u>72,832</u>
Total governmental activities, capital assets not being depreciated	 <u>\$ 202,918</u>
Business-type activities:	
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	\$ 22,308
Buildings	1,334,973
Improvements other than buildings	3,128,322
Machinery and equipment	<u>60,630</u>
Total business-type activities capital assets	 <u>\$ 4,546,233</u>

TOWN OF MARENGO
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2006

Description of Asset	Ending Balance	Due Within One Year
Business-type Activities:		
Wastewater Utility		
Notes and loans payable	\$ 190,339	\$ 24,625
Revenue bonds:		
1991 Wastewater Revenue Bonds	<u>278,000</u>	<u>13,000</u>
Total business-type activities long-term debt:	<u>\$ 468,339</u>	<u>\$ 37,625</u>

TOWN OF MARENGO
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS

Controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient.

The following deficiencies were noted for the year ending December 31, 2005:

1. Transactions for the period of January 1, 2005 through September 20, 2005, were not posted to the accounting records until after September 20, 2005.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

2. Monthly bank reconciliements were not being performed.

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."

3. Receipts were not always issued or receipts were not issued at the time of the transaction.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

4. 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."

5. There were a considerable number of posting errors consisting of receipts being posted to the wrong fund.

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

TOWN OF MARENGO
EXAMINATION RESULTS AND COMMENTS
(Continued)

ERRORS ON CLAIMS

The following deficiencies were noted during the review of claims for the examination period:

1. Claims were not prepared for all disbursements.
2. All claims did not have Board approval.
3. Claims or invoices were not accompanied by evidence in support of the receipt of goods or services.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services."

"(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

FINANCIAL REPORT OPINION MODIFICATION

During the prior audit, the condition of the records for the Town for the period January 1, 2004 to December 31, 2004, made it impossible to conduct a financial audit for that period. Since a financial audit was not conducted for that period, there are some uncertainties as to the accuracy of the beginning cash and investment balances of the governmental, proprietary, and fiduciary funds of the Town. Due to the uncertainties in the accuracy of the beginning balances, the State Board of Accounts was unable to provide an unqualified opinion in the Independent Auditor's Report for the financial statements.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditor's Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF MARENGO
EXAMINATION RESULTS AND COMMENTS
(Continued)

CASH NECESSARY TO BALANCE, BANK RECONCILIATIONS

A comparison of the Town records to the Town's bank accounts indicated cash necessary to balance of \$150.

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)

The former Clerk-Treasurer, Roscoe Hooten, has been requested to reimburse the Town's General Fund \$50 and the Town's Wastewater Utility Operating Fund \$100. (See Summary, page 15)

PENALTIES, INTEREST AND OTHER CHARGES

Penalties and interest totaling \$1,273.40 were paid to the Internal Revenue Service for failure to timely remit federal payroll tax withholdings for the quarters ending September 30, 2004, December 31, 2004, March 31, 2005, and June 30, 2005.

Penalties and interest totaling \$536.29 were paid to the Indiana Department of Workforce Development for failure to timely remit unemployment taxes for the quarters ending September 30, 2004, December 31, 2004, March 31, 2005, June 30, 2005, and for the 2005 annual assessment.

Penalties and interest totaling \$378.12 were paid to the Indiana Department of Revenue for failure to timely remit state and local payroll tax withholdings for the months of January 2005 through August 2005.

On November 9, 2005, the former Clerk-Treasurer, Roscoe Hooten, was informed that, if any additional penalties and interest charges were incurred for any liability periods subsequent to this date, he could be held personally responsible for the payment of these charges. Subsequent penalties and interest charges of \$83.70 were paid by the Town to the Indiana Department of Revenue for failure to remit timely state and local payroll tax withholdings for the months of April and May 2006.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

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

The former Clerk-Treasurer, Roscoe Hooten, has been requested to reimburse the Town's Economic Development Income Tax Fund \$83.70. (See Summary, page 15)

TOWN OF MARENGO
EXAMINATION RESULTS AND COMMENTS
(Continued)

APPROPRIATIONS

The records presented for examination indicated the following expenditures in excess of budgeted appropriations:

Fund	Years	Excess Amount Expended
Park and Recreation	2005	\$ 6,538
Riverboat	2005	18,247
Park and Recreation	2006	5,091
Riverboat	2006	36,642
Cemetery	2006	4,664

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

BLANK CHECK DISBURSEMENTS

In several instances, blank signed checks were given to individuals to pay for purchases. Vendor receipts, invoices, claims, and other supporting information, were not always available to verify the validity of the disbursements. Due to the lack of supporting information, the validity and accountability for some monies disbursed could not be established.

Checks and receipts should be prepared timely and not signed in advance of the event or transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Supporting documentation such as receipts, canceled checks, tickets, 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)

OPTICAL IMAGES OF WARRANTS

The 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 . . . "

TOWN OF MARENGO
EXAMINATION RESULTS AND COMMENTS
(Continued)

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:

- (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)."

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

During the examination period, the Town contracted with an individual to perform mowing services at the Town's Cemetery. Payments made to the contractor totaled \$6,900 in 2005 and 2006. The Town did not comply with the directives of the Internal Revenue Service by failing to file a Form 1099 MISC, "Miscellaneous Income" for payments made to the contractor for the calendar years 2005 and 2006.

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)

CUSTOMER DEPOSIT REGISTER

The detailed customer deposit register does not reconcile with the customer deposit amount recorded in the simplified cash ledger.

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)

TOWN OF MARENGO
EXAMINATION RESULTS AND COMMENTS
(Continued)

INVESTMENT MATURITY LIMITATIONS

The Town purchased a 60 month certificate of deposit on June 20, 2006.

Indiana Code 5-13-9-5.6 states: "Investments made under IC 5-13-9 must have a stated final maturity of not more than two years after the date of purchase or entry into a repurchase agreement."

COMPENSATION AND BENEFITS

During 2005 and 2006, the Town purchased hams as Thanksgiving gifts for all Town employees. The total cost of the hams for the two years was \$437.84. The value of the hams was not included as compensation on the salary schedule adopted by the Town Council or included on the employee's federal wage and tax statement (Form W-2).

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)

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)

SERVICE AND TIME RECORDS

Payroll Schedule and Voucher (General Payroll Form 99) did not contain the signature of the responsible official attesting that the time records of each employee had been examined.

Employee Service Records (General Form 99A) were not maintained.

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 MARENGO
EXIT CONFERENCE

The contents of this report were discussed on June 14, 2007, with Roscoe Hooten, former Clerk-Treasurer; Teri Hosier, Clerk-Treasurer; and John R. Pierson, President of the Town Council. The officials concurred with our findings.

TOWN OF MARENGO
SUMMARY

	Charges	Credits	Balance Due
Roscoe Hooten, former Clerk-Treasurer:			
Cash Necessary to Balance,			
Bank Reconciliation, page 10	\$ 150.00	\$	\$
Paid by Roscoe Hooten, June 14, 2007, Receipts 5713 and 5377		150.00	-
Penalties, Interest and Other Charges, page 10	83.70		
Paid by Roscoe Hooten, June 14, 2007, Receipt 5378		83.70	-
Totals	\$ 233.70	\$ 233.70	\$ -