

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

AUDIT REPORT

OF

CONTROLLER

CITY OF ANDERSON

MADISON COUNTY, INDIANA

January 1, 2006 to December 31, 2006



**FILED**

09/05/2007



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CITY OFFICIALS

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



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

We have audited the records of the Controller for the period from January 1, 2006 to December 31, 2006, 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 2006.

STATE BOARD OF ACCOUNTS

June 11, 2007

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AUDIT RESULTS AND COMMENTS

ACCUMULATION AND PAYMENT OF ACCRUED SICK LEAVE

The City has a policy concerning accumulation and payment of sick leave. The policy states that an employee may accumulate up to, but not exceeding, 180 days of sick leave; an employee whose sick time exceeds the maximum accumulation may convert the excess sick time to vacation time at the rate of 2 sick days for 1 vacation day. Upon leaving the City, any employee that has 10 years of service is eligible for payment of ½ of their sick leave at their current rate of pay; however, this amount should not exceed the maximum of 180 days at the current rate of pay. In 2006, two employees retired who received payment in excess of the maximum allowed, the combined total amount of overpayment for the two employees was \$1,549.12. Officials are currently pursuing collection of the overpayments.

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)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CASH NECESSARY TO BALANCE - BANK ACCOUNT RECONCILIATIONS

The depository reconciliation of the fund balances to the bank account balances for December 2006 was incorrect as presented for audit. We noted a difference of \$27,373.74 (cash necessary to balance) at December 31, 2006. Additional inquiry and observation revealed that officials are not properly completing bank account reconciliations on a timely, monthly basis. A similar comment appeared in the prior two reports.

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."

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)

CAPITAL ASSET RECORDS

The following deficiencies were noted with the City's capital asset records:

Reporting of capital lease purchases was not accurate. The City had not included \$668,603 in capital asset lease purchases prior to December 31, 2006. Additionally, there were four leases included in the capital asset records for the wrong amount. The leases were capitalized for the total of all lease payments, including interest, instead of recording them at the present value of future minimum lease payments as required by accounting principles generally accepted in the United States.

Accounting for Construction in Progress was inadequate. The unit did not maintain an adequate detail of projects that comprise the balance of construction in progress. It was noted that many entries were for the project's contractual amount in total. Then, in some cases but not all, payments against the project's contract were also capitalized. Additionally, the unit did not always

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(Continued)

classify project payments accurately. In many instances, we noted payments were not being recorded to Construction in Progress but rather to depreciable classifications. This understates construction in progress and causes depreciation to be taken prematurely, which incorrectly reduces the net value of capital assets. Due to these errors, the detail and control of construction in progress was difficult to verify.

Officials are not always properly capturing expenditures subject to capitalization. During our audit, we noted numerous items purchased from capital projects funds which met the definition of capital assets as stated in the unit's capital asset policy, but were not being recorded as capital asset additions. Additionally, officials have not always adhered to capitalization thresholds as outlined in the City's "Capital Asset Accounting System and Capitalization Policy" when recording capital asset additions. Occasionally, items were found to have been capitalized for an amount less than the threshold established by the policy for a particular asset class.

Amounts capitalized as utility plant in service 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.

Failure to adequately maintain capital asset records in accordance with applicable compliance guidelines could result in a qualified audit opinion.

A similar comment appeared in the prior two reports.

Every governmental unit should have a complete inventory of all capital assets owned which reflects 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)

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)

#### DEPRECIATION OF CAPITAL ASSETS

The City was required to make an adjustment in the cumulative amount of \$1,529,419 to various accumulated depreciation contra asset accounts as of December 31, 2006, in order for net capital assets to be reflected in the financial statements at an amount approximating their net carrying value. There were several problems noted with the depreciation as calculated by the City's accounting software on individual assets.

We noted during the course of our audit where amounts recorded as accumulated depreciation had been incorrectly computed for numerous assets. We noted a total of 168 depreciable assets having accumulated depreciation errors of over four months worth of depreciation expense.

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AUDIT RESULTS AND COMMENTS  
(Continued)

Some assets were not being depreciated at all. Most of these items were correctly identified in the unit's computer system as depreciable items; however, no depreciation expense was taken in 2006 and no accumulated depreciation balance was recorded on these assets.

Several items were also noted that had negative depreciation expense for 2006 and negative accumulated depreciation.

Officials and the software vendor have been unable to provide an adequate explanation as to how the errors noted above were caused by the computer software.

Additionally, the unit's policy states that straight line depreciation will be utilized with a full year of depreciation taken in the year of acquisition. Although the software system correctly utilizes the straight-line method of depreciation, it pro-rates the first year of depreciation, based on the month of purchase.

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A similar comment appeared in the prior two reports.

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#### INCOMPLETE FINANCIAL RECORDS

Financial records presented for audit were incomplete and did not include the activity of the Anderson Redevelopment Commission (ARC) Lease Rental Fund. A separate ledger was maintained by the Controller's Office to account for this activity. Fund activity was not included in the City's Annual Report (CTAR). The Controller's Office added the fund to the City's accounting system in early 2007.

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)

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EXIT CONFERENCE

The contents of this report were discussed on June 26, 2007, with Morris D. Long, Controller; and Hon. Kevin S. Smith, Mayor.