

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

EXAMINATION REPORT
OF
TOWN OF MELLOTT
FOUNTAIN COUNTY, INDIANA
January 1, 2005 to December 31, 2006



FILED
12/19/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Gwen Lester Vickie S. Austin	01-01-04 to 12-31-05 01-01-06 to 12-31-07
President of the Town Council	Gary Austin Connie Helgers David Keller	01-01-05 to 12-31-05 01-01-06 to 12-31-06 01-01-07 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF MELLOTT, FOUNTAIN COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Mellott (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.

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.

In our opinion, 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.

STATE BOARD OF ACCOUNTS

October 30, 2007

TOWN OF MELLOTT
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL 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	\$ (10,796)	\$ 24,563	\$ 17,019	\$ (3,252)
Motor Vehicle Highway	12,846	7,828	865	19,809
Local Road and Street	15,277	1,082	-	16,359
Riverboat Wagering and Revenue Sharing	2,614	1,305	2,614	1,305
Rainy Day	554	-	554	-
Levy Excess	138	-	-	138
Cumulative Capital Improvement	6,755	640	7,016	379
Totals	<u>\$ 27,388</u>	<u>\$ 35,418</u>	<u>\$ 28,068</u>	<u>\$ 34,738</u>

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ (3,252)	\$ 28,035	\$ 19,574	\$ 5,209
Motor Vehicle Highway	19,809	14,082	29,151	4,740
Local Road and Street	16,359	1,058	5,125	12,292
Riverboat Wagering and Revenue Sharing	1,305	1,303	-	2,608
Levy Excess	138	-	-	138
Donation	-	1,000	-	1,000
Cumulative Capital Improvement	379	740	-	1,119
Totals	<u>\$ 34,738</u>	<u>\$ 46,218</u>	<u>\$ 53,850</u>	<u>\$ 27,106</u>

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

TOWN OF MELLOTT
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, health and social services, and general administrative services.

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.

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. Interfund Loan

A temporary loan of \$10,000 was made February 2006 from the Motor Vehicle Highway Fund to the General Fund. The loan remained outstanding as of December 31, 2006.

TOWN OF MELLOTT
EXAMINATION RESULTS AND COMMENTS

DEPOSITS

As stated in the prior Reports B13182, B18413, and B24929, we noted numerous instances where receipts were deposited later than the next business day. In 2005, 36 instances were noted ranging from 2 to 88 days. Of the 36 instances, 18 receipts were held greater than 7 days. No instances were noted in 2006.

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."

CONDITION OF RECORDS

Financial records presented for audit were out of balance by \$1,120.31. Receipts were overstated by \$1,120.41, and December 31, 2004, balances were not brought forward correctly resulting in the additional difference of \$.10. The overstated receipts were a result of: (1) improperly recording a December 15, 2005, deposit of \$5,836.03, posted for \$6,368.03, a difference of \$532.00; and (2) four deposits-in-transit, totaling \$588.41, were included in the January 1, 2005, beginning balance, and re-posted January 4, 2005, as 2005 receipts. In addition, running balances in the ledgers were not reflective of the entries. Checks and deposits were posted, but not consistently subtracted or added to the running balance; and several addition and subtraction errors were present.

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)

CAPITAL ASSET RECORD

As previously reported in prior Report B24929, the Town does not maintain a record of their capital assets.

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 form. 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)

ERRORS ON CLAIMS

The following deficiencies were noted on a test of 205 claims during the audit period:

- (1) Accounts Payable Vouchers were not prepared and no documentation to support receipt of goods or services was found for 17 disbursements paid in 2005.

TOWN OF MELLOTT
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (2) Accounts Payable Vouchers were not prepared, but supporting documentation, including receipts and statements, was available for 5 disbursements paid in 2005.
- (3) For an additional 3 payments made in 2005, Accounts Payable Vouchers were prepared, but insufficient supporting documentation was present.
- (4) Duplicate payments of \$28.64 for expense reimbursement were paid March 10, 2005, and June 16, 2005.

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."

Indiana Code 5-11-10-2(a) states in part: "Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer."

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for whom amounts are claimed, including the nature, name and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF MELLOTT
EXAMINATION RESULTS AND COMMENTS
(Continued)

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)

PENALTIES, INTEREST AND OTHER CHARGES

Penalties of \$681.93 and interest of \$126.00, totaling \$807.93, were paid to the Internal Revenue Service in 2005 and 2006.

A penalty of \$75.00 and interest of \$11.98, totaling \$86.98, were paid to the Indiana Department of Revenue in 2005.

The penalties and interest were assessed on delinquent payments of payroll withholding taxes for periods ending June 30, 2004 through September 30, 2005.

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)

OUTSTANDING CHECKS

As previously reported in prior Report B24929, outstanding checks totaling \$458.50 from 2001 remain outstanding as of December 31, 2006.

Indiana Code 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

Indiana Code 5-11-10.5-3 states in part: "Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the board of finance of the political subdivision or the fiscal body of a city or town. The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

TOWN OF MELLOTT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

LOAN BETWEEN TOWN FUNDS

A temporary loan of \$10,000.00 was made in February 2006 from the Motor Vehicle Highway Fund to the General Fund and not repaid by December 31, 2006. The loan remains outstanding as of October 29, 2007. No ordinance or resolution was passed to extend the prescribed period of the transfer.

Indiana Code 36-1-8-4 concerning temporary loans states, in part:

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs; (4) The amount transferred must be returned to the other fund at the end of the prescribed period . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and department of local government finance."

PAYROLL DEDUCTIONS NOT MADE

As reported in prior Report B24929, payroll deductions were not withheld from Town employees' salaries. For 2005, no payroll taxes were withheld from the Clerk-Treasurer's salary or from one Town Council member. For 2006, no payroll taxes were withheld from the Clerk-Treasurer and the three Town Council members.

TOWN OF MELLOTT
EXAMINATION RESULTS AND COMMENTS
(Continued)

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.

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)

TOWN OF MELLOTT
EXIT CONFERENCE

The contents of this report were discussed on October 30, 2007, with Vickie S. Austin, Clerk-Treasurer. The official concurred with our findings.