

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

EXAMINATION REPORT
OF
TOWN OF ST. LEON
DEARBORN COUNTY, INDIANA
January 1, 2006 to December 31, 2007



FILED
12/31/2008

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OFFICIALS

Office

Official

Term

Clerk-Treasurer

Kevin Alig

01-01-04 to 12-31-11

President of the
Town Council

Carl D. Farrow

01-01-06 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF ST. LEON, DEARBORN COUNTY, INDIANA

We were engaged to examine the schedules of receipts, disbursements, and cash and investment balances of the Town of St. Leon (Town), for the period of January 1, 2006 to December 31, 2007. These schedules are the responsibility of the Town's management.

Financial records for the years ended 2006 and 2007 did not provide sufficient information to examine or establish receipts, disbursements, ending balances, or the accuracy or correctness of the transactions. Accordingly, schedules of receipts and disbursements are not presented for 2006 or 2007. The schedule of cash and investment balances of the Town presented are based on spreadsheets prepared by the Town's management. The validity and accountability of the balances of the Town could not be established.

Since the officials of the Town did not maintain adequate financial records as discussed in the preceding paragraph, the scope of our examination work was not sufficient to enable us to express, and we do not express, an opinion on the financial schedule.

However, we did examine records to the extent possible for compliance with State statutes and 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.

STATE BOARD OF ACCOUNTS

November 20, 2008

TOWN OF ST. LEON
 SCHEDULE OF CASH AND INVESTMENT BALANCES
 ALL GOVERNMENTAL AND PROPRIETARY FUND TYPES
 As Of December 31, 2007

	Cash and Investments
Governmental Funds:	
Town	\$ 15,964
Riverboat	1,025,232
Police	2,043
Proprietary Funds:	
Wastewater Utility - Operating	169,288
Wastewater Utility - Bond and Interest	220,990
Wastewater Utility - Capital Improvement	90,587
Wastewater Utility - Debt Service Reserve	235,840
Totals	\$ 1,759,944

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

TOWN OF ST. LEON
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, highways and streets, general administration 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.

Note 6. Subsequent Event

On July 25, 2008, the Town purchased real property at a cost of \$338,450. The property was purchased from the Town's Riverboat Fund.

TOWN OF ST. LEON
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2007

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Wastewater Utility		
Revenue bonds:		
Wastewater System Construction	\$ 3,519,000	\$ 228,950
Loans Payable:		
Lift Station	43,036	9,744
Sewer Line Construction	<u>850,000</u>	<u>88,250</u>
 Total Wastewater Utility	 <u>\$ 4,412,036</u>	 <u>\$ 326,944</u>

TOWN OF ST. LEON
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS (Applies to Clerk-Treasurer)

The Town was unable to present financial schedules that reported receipts, disbursements, and cash and investment balances for all funds for the years 2006 and 2007. This condition resulted in the scope of our examination work not being sufficient to enable us to express an opinion on the Town's financial schedule. The following summarizes the condition of the Town's financial records:

1. The Town contracted with an accounting service to maintain its financial ledgers for the period of January 1, 2006 through May 31, 2007. The ledgers presented for examination for this period did not present sufficient financial information as described below:
 - (a) Information showing year to date totals for receipt and disbursement activity were not available.
 - (b) Receipts and disbursements were recorded in a single column on the monthly printouts of financial transactions with no month to date totals for receipt and disbursement activity.
 - (c) Financial transactions were recorded by bank account and not by fund.

The financial information reported on the Annual Financial Report for the year 2006 could not be verified to the financial ledger due to the conditions described above.

2. The Town did not prepare an Annual Financial Report for the year 2007. In addition, the ledgers presented for examination did not present sufficient financial information as described below:
 - (a) The Town maintained a spreadsheet of monthly transactions for the Town and Wastewater funds after May 31, 2007. The spreadsheet recorded financial activity by bank account and not by fund.
 - (b) The Town also entered financial transactions into a computerized accounting system for a portion of the year. The printouts generated by the computerized accounting system did not include complete information for the entire year of 2007.

The Town was unable to present receipts and disbursements in its financial schedule due to the conditions described above.

Accounting records and other public records must be maintained in a manner that will support accurate financial schedules. Anything other than an unqualified opinion on the Independent Accountants' Report on the financial schedules 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)

A similar comment was included in prior Report B28047.

NONUSE OF PRESCRIBED FORMS (Applies to Clerk-Treasurer)

The following prescribed or approved forms were not in use:

1. Accounts Payable Voucher (Town Form 39);

TOWN OF ST. LEON
EXAMINATION RESULTS AND COMMENTS
(Continued)

2. Municipal Wastewater Utility Accounts Payable Voucher (Form 301S);
3. Accounts Payable Voucher Register (General Form 364);
4. Clerk-Treasurer's Receipt (City and Town Form 217);
5. Clerk-Treasurer's Warrant (Town Form 219);
6. Ledger of Receipts, Disbursements and Balances (City and Town Form 208);
7. Ledger of Appropriations, Encumbrances, Disbursements, and Balances (City and Town Form 209) or computerized equivalent;
8. Employee's Service Record (General Form 99A);
9. Employee's Earning Record (General Form 99B);
10. Accounts Receivable Control (General Form 315);
11. Payroll Schedule and Voucher (General Form 99); and
12. Simplified Cash Journal – Wastewater Utility (Utility Form 323) or computer equivalent.

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)

A similar comment was included in prior Report B28047.

DISBURSEMENT PROCEDURES (Applies to Clerk-Treasurer)

We identified the following deficiencies in the processing of payments made to vendors:

1. Disbursements were not certified by the fiscal officer in 69% of the disbursements reviewed.
2. The invoices contained the signature of the President of the Town Council for 78% of the disbursements we reviewed. However, there was no documentation showing the majority of the Town Council approved disbursements.
3. Disbursement documentation was not adequately itemized for 4% of the disbursements we reviewed.

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:

TOWN OF ST. LEON
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (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."

A similar comment was included in prior Report B28047.

UNDOCUMENTED TRANSFERS OF FUNDS (Applies to Clerk-Treasurer)

In 2006, we noted transfers of funds totaling \$63,256 of which the majority was transfers from the Sewer Capital Improvement Fund to the Sewer Operating Fund. In 2007, we noted transfers of funds totaling \$118,351 of which the majority was transfers from the Riverboat Fund to the General Fund. These transfers were shown as electronic transfers on the bank statements with no check written for the transfers. No documentation was presented for examination documenting the purpose of the transfers. No ordinance or accounts payable voucher approved by the Board was presented for examination authorizing the transfers of funds.

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)

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

RECEIPTS AND DEPOSITS (Applies to Clerk-Treasurer)

We found the following deficiencies regarding the receipt and deposit of monies received:

1. No receipts were written for monies received.

The risk of funds being misplaced, stolen, or not being recorded is increased when receipts are not prepared.

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)

TOWN OF ST. LEON
EXAMINATION RESULTS AND COMMENTS
(Continued)

2. Receipts were not being deposited by the next business day. We identified numerous instances where receipts were held for several weeks before being deposited.

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."

3. Money from the utility cash register was used for "petty cash" type expenditures such as postage rather than being deposited and disbursed by check.

Disbursements, other than proper petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

A similar comment was included in prior Report B28047.

ANNUAL FINANCIAL REPORTS (Applies to Clerk-Treasurer)

The financial information for the year 2006 annual financial report could not be verified due to the condition of the Town's records (See Examination Result and Comment titled "Condition of Records"). The annual financial report for the year 2007 was not prepared and published.

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)

APPROPRIATIONS (Applies to Clerk-Treasurer)

No approved budget order was presented for examination for the following funds: General, Motor Vehicle Highway, and Local Road and Street for the year 2006.

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."

Indiana Code 36-4-8-2 states in part:

". . . Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if:

- (1) an appropriation has been made for that purpose and the appropriation is not exhausted . . ."

A similar comment was included in prior Report B28047.

TOWN OF ST. LEON
EXAMINATION RESULTS AND COMMENTS
(Continued)

SALARY ORDINANCE (Applies to Town Council)

The Salary Ordinance approved by the Town Council for the year 2007 did not include the pay rates for three part-time employees.

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

CONFLICT OF INTEREST (Applies to Town Council)

Mr. Carl D. Farrow, President of the Town Council, received compensation in the amount of \$9,687 during the year 2007 for services performed as a part-time employee at the Town Hall and Waste-water Plant. A Uniform Conflict of Interest Disclosure Statement was not filed.

Indiana Code 35-44-1-3 states in part:

"(a) A public servant who knowingly or intentionally: (1) has a pecuniary interest in; or (2) derives a profit from; a contract or purchase connected with an action by the governmental entity served by the public servant commits conflict of interest, a Class D felony."

"(c) This section does not prohibit a public servant from having a pecuniary interest in or deriving a profit from a contract or purchase connected with the governmental entity served . . . (3) If the public servant; (A) is an elected public servant. . . and (B) makes a disclosure under subsection (d)(1) through (d)(6). . . ."

"(d) A disclosure required by this section must: (1) be in writing; (2) describe the contract or purchase to be made by the governmental entity; (3) describe the pecuniary interest that the public servant has in the contract or purchase; (4) be affirmed under penalty of perjury; (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the governmental entity prior to final action on the contract or purchase; (6) be filed within fifteen (15) days after final action on the contract or purchase with: (A) the state board of accounts; and (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase. . . ."

"(g) A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of: (1) the public servant; or (2) a dependent of the public servant who: (A) is under the direct or indirect administrative control of the public servant; or (B) receives a contract or purchase order that is reviewed, approved, or directly or indirectly administered by the public servant."

"(k) As used in this section, 'dependent' means any of the following: (1) The spouse of a public servant. (2) A child, stepchild, or adoptee (as defined in IC 31-9-2-2) of a public servant who is: (A) unemancipated; and (B) less than eighteen (18) years of age. (3) Any individual more than one-half (1/2) of whose support is provided during a year by the public servant."

TOWN OF ST. LEON
EXAMINATION RESULTS AND COMMENTS
(Continued)

CAPITAL ASSET RECORDS (Applies to Clerk-Treasurer)

A capital asset record was not maintained for assets purchased from the Town's governmental and proprietary funds.

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 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)

A similar comment was included in prior Report B28047.

OFFICIAL BOND (Applies to Clerk-Treasurer)

The Clerk-Treasurer's official bond has not been filed in the office of the County Recorder since January 1, 2003.

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. . . ."

A similar comment was included in prior Report B28047.

DELINQUENT WASTEWATER ACCOUNTS (Applies to Clerk-Treasurer)

Delinquent wastewater fees and penalties were not recorded with the County Recorder, nor were they certified to the County Auditor which would result in a lien against the property.

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

TOWN OF ST. LEON
EXAMINATION RESULTS AND COMMENTS
(Continued)

"(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 . . ."

A similar comment was included in prior Report B28047.

ACCOUNTS RECEIVABLE CONTROL (Applies to Clerk-Treasurer)

The Clerk-Treasurer did not maintain an accounts receivable control account which is a summary account used to reconcile to the individual accounts receivable accounts recorded in the Consumer's Ledger on a monthly basis. General Ledger Sheet (Form 315) has been prescribed for use as an accounts receivable control account.

When utility records are kept on a cash or single-entry basis, a separate control account should be carried on General Ledger Sheet, General Form No. 315, in the front of the Consumer's Ledger. This account will be debited with the total monthly billing to all customers for utility services including penalties and sales tax. This account will be credited with the total accounts receivable collections, penalties and sales tax shown by the Register of Daily Cash Receipts - Consumers. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

A similar comment was included in prior Report B28047.

CERTIFIED REPORT NOT FILED (Applies to Clerk-Treasurer)

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 2006 and 2007.

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."

A similar comment was included in prior Report B28047.

TOWN OF ST. LEON
EXIT CONFERENCE

The contents of this report were discussed on November 20, 2008, with Kevin Alig, Clerk-Treasurer; and Carl D. Farrow, President of the Town Council. The officials concurred with our findings.