

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

EXAMINATION REPORT
OF
CITY OF SCOTTSBURG
SCOTT COUNTY, INDIANA
January 1, 2007 to December 31, 2007



FILED
12/31/2008

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials	2
Independent Accountant's Report.....	3
Financial Information:	
Schedule of Receipts, Disbursements, and Cash and Investment Balances	4
Notes to Financial Information	5-7
Supplementary Information:	
Schedule of Long-Term Debt	8
Examination Results and Comments:	
Deficit Cash Balances	9-10
Internal Controls – Sale of Trash Bags	10-11
Internal Controls – Investment Activity	11-12
Cash Reserve Fund.....	12-13
Internal Controls – Utility Customer Collections.....	13-14
Internal Controls – Sanitation Extra Pick-Up Fees.....	14
Check Registers	14-15
Proration of City Expenditures.....	15
Customer Deposits	15
Loan Agreements	15-16
Condition of Records	16
Penalties, Interest, and Other Charges	17
Disbursement Procedures	17-18
Credit Cards.....	18
Officials and Employees Compensation.....	18-19
Exit Conference.....	20

OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kelly Neuhauser Janetta C. Hardy	01-01-04 to 12-31-07 01-01-08 to 12-31-11
Mayor	William H. Graham	01-01-04 to 12-31-11
President of the Board of Public Works	William H. Graham	01-01-04 to 12-31-11
President of the Common Council	Rick Barrett Ray Zollman	01-01-07 to 12-31-07 01-01-08 to 12-31-08
Superintendent of Water Utility	Lance Hounshell	01-01-07 to 12-31-08
Superintendent of Wastewater Utility	Millard Moore Jason Applegate	01-01-07 to 11-30-08 12-01-08 to 12-31-08
Superintendent of Electric Utility	James Binkley	01-01-07 to 12-30-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF SCOTTSBURG, SCOTT COUNTY, INDIANA

We have examined the financial information presented herein of the City of Scottsburg (City), for the period of January 1, 2007 to December 31, 2007. The City'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 City for the year ended December 31, 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial information. It has not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

December 11, 2008

CITY OF SCOTTSBURG
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2007

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds:				
General	\$ 321,021	\$ 2,048,401	\$ 2,434,315	\$ (64,893)
Redevelopment Commission District Capital	3,052,450	739,469	262,468	3,529,451
Certified Technology Park	222,255	837,828	335,000	725,083
Motor Vehicle Highway	230,473	249,668	216,209	263,932
Local Road and Street	272,538	45,092	-	317,630
Police Donations	10,152	1,000	139	11,013
Law Enforcement Continuing Education	30,811	7,341	1,387	36,765
Park and Recreation	77,684	135,182	247,763	(34,897)
Economic Industrial Development	441,966	49,199	-	491,165
Revolving Loan EDA	169,149	149,469	101,250	217,368
Federal Asset Forfeiture	140,023	26,947	-	166,970
Operation Pullover	(714)	3,000	2,038	248
Scottsburg Heritage Station	15,458	8,800	6,766	17,492
Historic Preservation	2,384	-	-	2,384
Affordable Housing (Vintage Main Street)	1,569	-	-	1,569
Citizens Against Substance Abuse	2,381	1,500	1,463	2,418
Park Donations - Restricted	8,000	-	-	8,000
Rails to Trails Grant	(29,609)	-	-	(29,609)
Organized Crime Drug Enforcement Task Force	(6,428)	13,713	10,692	(3,407)
Local Asset Forfeiture	7,680	4,545	-	12,225
Tobacco Grant	12	-	-	12
Rural Development Revolving	3,806	11,055	13	14,848
Indiana Housing Development	(20,000)	-	-	(20,000)
Historic Review Board	(1,263)	50	-	(1,213)
Technology Center Grant	819,655	231,064	511,347	539,372
Brownfield Grant	(122,691)	322,980	395,196	(194,907)
Water Park	452	-	-	452
Cumulative Capital Improvement	44,380	21,215	5,225	60,370
Cumulative Building and Firefighting Equipment	258,889	-	16,006	242,883
Cumulative Park	577	482	-	1,059
Cumulative Capital Development	169,432	62,626	19,943	212,115
Recreational Trails	17,032	-	-	17,032
Rainy Day	180,886	-	-	180,886
Safe Street Task Force	-	-	1,458	(1,458)
Proprietary Funds:				
Water Utility - Operating	125,072	2,418,018	2,654,611	(111,521)
Water Utility - Bond and Interest	111,910	273,410	273,693	111,627
Water Utility - Debt Service Reserve	404,862	66,138	136,539	334,461
Water Utility - Customer Deposit	32,908	66,382	70,741	28,549
Water Utility - Depreciation	20,432	12,582	63	32,951
Water Utility - Tower Painting	147,856	736	-	148,592
Wastewater Utility - Operating	(48,413)	1,469,114	1,335,882	84,819
Wastewater Utility - Bond and Interest	164,724	213,144	312,868	65,000
Wastewater Utility - Debt Service Reserve	59,820	-	59,820	-
Wastewater Utility - West I-65 Construction	7,082	-	-	7,082
Electric Utility - Operating	1,828,938	13,117,350	13,108,984	1,837,304
Electric Utility - Customer Deposit	115,746	52,050	47,702	120,094
Electric Utility - Depreciation	71,235	-	-	71,235
Electric Utility - Cash Reserve	252,000	84,000	-	336,000
Electric Utility - Broadband	(1,563,272)	753,230	1,481,895	(2,291,937)
Fiduciary Funds:				
Payroll	32,815	4,276,829	4,267,565	42,079
Latco Retainage	15,307	-	15,307	-
Focus Retainage	-	6,691	6,626	65
Police Pension Trust	592,645	181,987	155,718	618,914
Totals	<u>\$ 8,692,077</u>	<u>\$ 27,962,287</u>	<u>\$ 28,496,692</u>	<u>\$ 8,157,672</u>

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

CITY OF SCOTTSBURG
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety (police and fire), highways and streets, sanitation, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, electric, wireless broadband internet service, water, wastewater, and economic development.

Note 2. Fund Accounting

The City 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 City 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 District 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.

CITY OF SCOTTSBURG
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The City contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

B. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

CITY OF SCOTTSBURG
NOTES TO FINANCIAL INFORMATION
(Continued)

C. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

Note 7. Subsequent Events

On May 13, 2008, the City accepted the donation of a building with a fair market value of \$400,000.

The City awarded a contract for the acquisition of a sludge belt press for the Wastewater Utility in the amount of \$618,550 on November 10, 2008. Funding is to be provided through local sources and through a Community Development Block Grant awarded on May 27, 2008, in the amount of \$427,606.

On June 20, 2008, the City was awarded a remediation grant from the Indiana Finance Authority in the amount of \$400,000. Grant proceeds are to be used to environmentally clean up a tract of land located on South Elm Street in the City of Scottsburg. Once the cleanup is complete the property is to be sold to GenPak, LLC (Independent Company) for manufacturing purposes.

CITY OF SCOTTSBURG
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2007

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital leases:		
Infrastructure	<u>\$ 1,106,450</u>	<u>\$ 197,500</u>
Business-type Activities:		
Water Utility		
Loans payable	\$ 2,086,296	\$ 181,680
Revenue bonds:		
1998 Water improvement bond series A	1,705,000	105,940
1998 Water improvement bond series B	<u>512,000</u>	<u>31,040</u>
Total Water Utility	<u>4,303,296</u>	<u>318,660</u>
Wastewater Utility		
Revenue bonds:		
2003 Sewage works refunding bonds	<u>445,000</u>	<u>88,255</u>
Electric Utility:		
Loans payable	<u>450,000</u>	<u>472,110</u>
Total business-type activities debt:	<u>\$ 5,198,296</u>	<u>\$ 879,025</u>

CITY OF SCOTTSBURG
EXAMINATION RESULTS AND COMMENTS

DEFICIT CASH BALANCES (Applies to Clerk-Treasurer, Mayor, and City Council)

The following funds had deficit cash balances at December 31, 2007:

Fund	Amount
General	\$ 64,893
Park and Recreation	34,897
Organized Crime Drug Enforcement Task Force	3,407
Safe Street Task Force	1,458
Indiana Housing Development	20,000
Historic Review Board	1,213
Rails to Trails Grant	29,609
Brownfield Grant	194,907
Water Utility Operating	111,521
Electric Utility Broadband	2,291,937

The Indiana Housing Development Fund and the Rails to Trails Grant Fund are dormant funds with no activity since the year 2004. The Historic Review Board Fund has had little to no financial activity since the year 2004. The elimination of these deficit balances will most likely require a permanent transfer of funds from another appropriate City fund, such as the General Fund, when the General Fund has monies available.

The Safe Street Task Force Fund was overdrawn because a grant reimbursement was recorded to the Organized Crime Drug – Enforcement Task Force Fund in error. This error should be corrected to eliminate the deficit cash balance in the Safe Street Task Force Fund.

The following funds were overdrawn due to expenditures exceeding grant reimbursements as of December 31, 2007:

Brownfield Grant
Organized Crime Drug Enforcement Task Force

In addition, the Brownfield Grant Fund deficit cash balance was due in part by grant reimbursement in the amount of \$37,258.35 being recorded as a receipt to the General Fund on August 13, 2007.

The Water Utility's Operating Fund deficit cash balance was caused by expenditures paid exceeding revenue received resulting in Water Utility Operations being funded by resources from restricted Water Utility funds.

The Electric Utility's Broadband Fund is a service that operates within the Electric Utility. The City has elected to maintain a Broadband Fund separate from the Electric Utility Operating Fund. The Broadband Fund and the Electric Utility Operating Fund share a common depository account. If the Electric Utility Operating Fund and the Broadband Fund were combined as one Operating Fund, these two funds would still have a net deficit cash balance of \$454,633 at December 31, 2007.

CITY OF SCOTTSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

When a deficit cash balance occurs, the Clerk-Treasurer is, in effect, borrowing funds from other City funds without obtaining formal approval from the City Council.

Indiana Code 36-1-8-4 (a) states:

"The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the fund that is in need of money for cash flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.
- (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.
- (5) Only revenues derived from the levying and collection of property taxes or special taxes or from operation of the political subdivision may be included in the amount transferred."

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We recommend that City officials adopt a financial plan that will eventually eliminate the deficit cash balances.

A similar comment was made in prior Report B30869.

INTERNAL CONTROLS – SALE OF TRASH BAGS (Applies to Clerk-Treasurer and Street Department)

The City purchases trash bags for resale to its customers. Trash bags are ordered and maintained at the Street Department and the Street Department is responsible for maintain a perpetual inventory of trash bags on hand. Trash bags are sold by the box, to various vendors who are billed through an invoice system, and sold on a per bag basis, to local customers at the Clerk-Treasurers office, at a cost of \$.75 per bag. A comparison of estimated sales to reported sales for the year 2007 shows the following unidentified variance:

CITY OF SCOTTSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

	2007	
	Bags	Sales Price
Inventory December 31, 2006	192,370	\$ 144,278
Purchases	111,000	83,250
Less spoilage	(1)	(1)
Total bags available for sale	303,369	227,527
Less bags on hand December 31, 2007	(141,545)	(106,159)
Estimated 2007 sales	161,824	121,368
Reported 2007 sales		117,123
Unidentified variance		\$ 4,245

There were three physical counts taken during the year 2007. None of the physical counts agreed with the Street Department's perpetual inventory. A physical count taken in the year 2008 differed from the perpetual inventory by 19 boxes or 3,800 bags. The current procedures for tracking trash bag inventory are ineffective.

Tickets, goods for sale, billings, and other collections are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit. (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)

INTERNAL CONTROLS - INVESTMENT ACTIVITY (Applies to the Clerk-Treasurer)

The City uses an alternative investment register in place of the prescribed Investment Register (Form 350). However, the alternative investment register did not provide detailed information for each investment and not all investment activity was recorded. This resulted in instances of investment activity not being recorded in the proper fund, interest earned not recorded properly on the financial records, and reinvestment of funds not being made timely. The following are examples of deficiencies we identified:

1. On May 2, 2007, a certificate of deposit matured and was cashed. The principal portion of \$498,247 was receipted into the Technology Center Grant Fund and the interest portion of \$12,725 was receipted to the Certified Technology Park Fund. The original investment was purchased from the Police Pension Fund, Electric Utility Customer Deposit Fund, and Wastewater Utility Operating Fund.

CITY OF SCOTTSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

2. A certificate of deposit matured on November 2, 2007, in the amount of \$510,972. Interest earned on this investment in the amount of \$12,771 was recorded in the City's records on November 14, 2007. The principal received at maturity was not recorded in the City's records. The check received at maturity from Chase Bank was taken directly to the Scott County State Bank and invested in a certificate of deposit.
3. A \$519,655 certificate of deposit matured July 13, 2007. The \$19,717 interest earned was not recorded in the City's records but was combined with the principal to purchase a new certificate of deposit.
4. A \$10,000 certificate of deposit purchased from the Water Utility was recorded as expenditure paid. The City had no record of the investment at December 31, 2007.

The monitoring of investment activity is required to report accurate financial information and to account for investments.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Interest on investments should not be added automatically to the investment. Instead, interest on investments should be paid to the governmental unit at each maturity date and posted to the appropriate 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)

CASH RESERVE FUND (Applies to Electric Utility)

The Electric Utility has two operating funds, the Electric Utility Operating Fund and the Electric Utility Broadband Fund. Transfers were made monthly in the amount of \$7,000 from the Operating Fund to the Electric Utility Cash Reserve Fund during the year 2007. The Cash Reserve Fund, established by ordinance, is used to accumulate surplus earnings from the Operating Fund for transfer to the City's General Fund. There was \$84,000 transferred from the Operating Fund to the Cash Reserve Fund during the year, even though no surplus earnings were available to transfer, as shown in the following schedule:

	Electric Operating	Electric Broadband	Totals
Receipts	\$ 13,117,350	\$ 753,230	\$ 13,870,580
Disbursements	13,108,984	1,481,895	14,590,879
Total receipts under disbursements			\$ (720,299.00)

CITY OF SCOTTSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 8-1.5-3-11(b) states:

"A cash reserve fund shall be created by ordinance and carried on the records of the utility or utilities by providing for monthly contributions or transfers to the cash reserve fund of surplus earnings of the utility or utilities."

Indiana Code 8-1.5-3-11(c) states:

"'Surplus earnings' are those cash earnings remaining after provision has been made to take care of current obligations, including:

- (1) operating expense;
- (2) depreciation or replacement fund;
- (3) bond and interest sinking fund;
- (4) retirement fund; or
- (5) any other priority fund requirements fixed by law."

We recommend that financial activity of the both the Operating Fund and the Broadband Fund be taken into consideration, prior to authorizing any surplus earnings to be transferred to the Cash Reserve Fund.

It follows, that if there are no "surplus earnings" a cash reserve fund will receive no contributions or transfers. (Cities and Towns Bulletin and Uniform Compliance Guidelines Issued by State Board of Accounts, September, 2004)

INTERNAL CONTROLS - UTILITY CUSTOMER COLLECTIONS (Applies to Utilities)

We found the following deficiencies regarding internal controls applicable to the collection of utility customer payments:

1. Employees responsible for collecting funds also have authorization to make adjustments to customer accounts.
2. The employees responsible for collecting funds are also authorized to prepare work orders that are also used as a basis for making adjustments to customer accounts.
3. There was no formal system in place that documents adjustments are being approved or reviewed by an employee or official independent of the employee making the adjustments.

CITY OF SCOTTSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

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)

A similar comment was made in prior Report B30869.

INTERNAL CONTROLS - SANITATION EXTRA PICK-UP FEES (Applies to Clerk-Treasurer)

The City bills customers for the pick-up and disposal of extra sanitation items. A review of the records showed the following deficiencies:

1. Bills were not consistently sent out at the same time each month.
2. Work orders did not provide sufficient detail regarding the type or quantity of items picked up. This information is needed to determine that the proper amount was charged in accordance with the approved rate schedule.
3. Invoices and work orders were not pre-numbered; therefore, controls were not adequate to make sure that all work was properly billed per the work order and all invoices were accounted for.
4. Delinquent accounts were not reviewed timely for rebilling and collection.
5. The employee responsible for collecting funds also had the following responsibilities:
 - a. Prepared work orders that were the basis for billing and made adjustments to customer accounts
 - b. Posted payments to customer accounts.

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)

A similar comment was made in prior Report B30869.

CHECK REGISTERS (Applies to Clerk-Treasurer and Utilities)

The City uses an electronic check register that should list all checks that are written. The check register is used in lieu of prescribed duplicate checks. The check registers we reviewed were incomplete. There were several instances of checks that were not recorded on the check registers during the period January through June. In July 2007, the Utilities started a new software program for recording financial activity. The new check register also did not properly list all check numbers, payees, and check amounts. In addition, a voided check report could be printed out; however, this report did list all voided checks.

CITY OF SCOTTSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

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)

PRORATION OF CITY EXPENDITURES (Applies to Board of Public Works)

Expenses relative to other City funds and departments were paid from the Electric Utility. The following are examples of these expenses:

1. The Electric Utility owns the office building that provides office space for general government services (General Fund), water services (Water Utility), and wastewater services (Wastewater Utility). The Electric Utility does not bill the City and the City's other utilities for the costs related to the operation of the office building such as the electric bill.
2. Postage paid for mailing utility bills and late notices.

The City does prorate the costs of shared employees between the City's three utilities. However, no time records are kept to support this calculation.

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

A similar comment was made in prior Report B30869.

CUSTOMER DEPOSITS (Applies to Electric and Water Utilities)

There were several instances of customer's deposits not being applied as payment on account balances when service had been discontinued for non-payment.

City ordinances require service deposits to guarantee payment of bills.

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)

A similar comment was made in prior Report B30869.

LOAN AGREEMENTS (Applies to Clerk-Treasurer)

The City loaned \$240,740 to Indiana Bottlers in April 1997. An amortization schedule was prepared based on a \$235,180 loan balance (the balance remaining after the first payment) and not on the original loan balance. The City's applied interest and principal on loan repayment differed from the approved amortization schedule's interest and principal payments. The last loan payment was made in April of 2006. Based on the approved amortization schedule, \$8,036 was left outstanding at the time of the final payment.

CITY OF SCOTTSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

The City made a loan to American Plastics. The final payment was due October 7, 2004, but was received on February 7, 2007. The payments for this loan, including the final payment, did not include additional interest determined in accordance with the provisions of the promissory note. This resulted in a loss of \$688 in interest income to the City.

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)

CONDITION OF RECORDS (Applies to Clerk-Treasurer)

We identified the following deficiencies related to the recordkeeping:

1. Record balances were not reconciled to depository balances. The record balances were satisfactory reconciled at December 31, 2007, only after taking into consideration numerous errors that were identified during the examination.

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."

2. We identified the following errors in the recording of financial activity:
 - a. Community Development Block Grant monies totaling \$37,258 recorded to the General Fund; Motor Vehicle Highway Fund monies totaling \$9,845 recorded to the Local Road and Street Fund; and interest receipts either not recorded or recorded to the wrong fund.
 - b. A funds transfer between JP Morgan Chase bank and Scott County State Bank was recorded as a receipt to the General Fund and a disbursement from the Payroll Fund. This caused cash and investment balances to be materially incorrect.
 - c. Investment transactions in the Police Pension Fund were incorrectly recorded in the Technology Center Grant Fund and the Certified Technology Park Fund.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

3. There were transactions recorded as "negative" receipts and disbursements.

Receipt and disbursement corrections or other errors should be corrected by memorandum entry with the issuance of a check and receipt to document the flow of the transactions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF SCOTTSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

PENALTIES, INTEREST, AND OTHER CHARGES (Applies to Clerk-Treasurer)

Penalties totaling \$293 were paid to the Internal Revenue Service on June 26, 2007, for not making a proper federal tax deposit for the tax period ending March 31, 2007.

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)

DISBURSEMENT PROCEDURES (Applies to Clerk-Treasurer and Board of Public Works)

The following deficiencies were noted on claims we reviewed during the examination period:

1. Seven percent of claims were not presented for examination.
2. Ten percent of claims were not adequately itemized.
3. Thirteen percent of claims did not have Board approval.
4. Thirty-two percent of claims or invoices did not include evidence documenting the receipt of goods or services purchased.
5. Twelve claims were not certified by the fiscal officer that the invoice or bill was true and correct.

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

CITY OF SCOTTSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (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 made in prior Report B30869.

CREDIT CARDS (Applies to Clerk-Treasurer)

There were several instances where credit card statements were paid with only a credit card slip as supporting documentation. Several instances were also noted where credit card statements were paid without supporting documentation for items such as room service, restaurant charges added to hotel bills, gas and food.

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

A similar comment was made in prior Report B30869.

OFFICIALS AND EMPLOYEES COMPENSATION (Applies to Board of Public Works and City Council)

The Mayor and Clerk-Treasurer received compensation from the City's General Fund, Electric Utility, Water Utility, and Wastewater Utility, in various amounts and percentages. The salary ordinance did not identify the source of funds for the compensation. According to officials, the amount of compensation paid from the City's General Fund was based on what was reported in the approved budget ordinance and the source of funding for the remainder of compensation to be paid was from the utilities based on percentages used in prior years.

Several employees received compensation from the Electric Utility, Water Utility, and Wastewater Utility, in various amounts and percentages. The salary ordinance did not always identify the proration of amounts or percentages for the compensation. In one instance the salary ordinance did identify the proration as one-third between Electric, Water, and Wastewater Utilities; however, the amounts paid were actually 41%, 31%, and 28%, respectively. According to officials, the amount of compensation paid from each utility was based on percentages used in prior years.

Indiana Code 36-4-7-4(b) states:

"(a) Subject to the approval of the city legislative body, the city executive may provide that city officers and employees receive additional compensation for services that:

- (1) are performed for the city;
- (2) are not governmental in nature; and
- (3) are connected with the operation of a municipally owned utility or function."

CITY OF SCOTTSBURG
EXAMINATION RESULTS AND COMMENTS
(Continued)

"(b) Subject to the approval of the executive and legislative body, the administrative agency operating the utility or function shall fix the amount of the additional compensation, which shall be paid from the revenues of the utility or function."

Expense paid from utility funds should be directly related to the operation of the municipally owned utility and not related to the operation of a city or town. (Cities and Town Bulletin and Uniform Compliance Guidelines Issued by State Board of Accounts, June, 2006)

It is our audit position that if the official records of the utility or function do not show the award of this additional compensation and the official records of the civil city do not show approval of the mayor and common council by ordinance or resolution as the statutes regulating the utility might provide, then there is no authority to make any payment. (Cities and Town Bulletin and Uniform Compliance Guidelines Issued by State Board of Accounts, September, 2003)

A similar comment was made in prior Report B30869.

CITY OF SCOTTSBURG
EXIT CONFERENCE

The contents of this report were discussed on December 11, 2008, with Kelly Neuhauser, former Clerk-Treasurer. The official concurred with our findings.

The contents of this report were discussed on December 16, 2008, with William H. Graham, Mayor; Janetta C. Hardy, Clerk-Treasurer; Sue Amick, Mayor's Administrative Assistant; and Tish Richey, Deputy Clerk-Treasurer. The officials concurred with our findings.