B38265

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

EXAMINATION REPORT

OF

TOWN OF WAVELAND

MONTGOMERY COUNTY, INDIANA

January 1, 2008 to December 31, 2009

FILED
01/06/2011

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OFFICIALS

| Office | Official | Term |
|---|---|---|
| Clerk-Treasurer | Donna Sabolick | 01-01-08 to 12-31-11 |
| President of the Town Council | James W. Zach<br>Lora Arts | 01-01-08 to 02-18-08<br>03-03-08 to 12-31-10 |

**STATE OF INDIANA**
AN EQUAL OPPORTUNITY EMPLOYER

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# INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF WAVELAND, MONTGOMERY COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Waveland (Town), for the period of January 1, 2008 to December 31, 2009. 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, 2008 and 2009, 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

November 10, 2010

TOWN OF WAVELAND
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, 2008 And 2009

| | Cash and Investments 01-01-08 | Receipts | Disbursements | Cash and Investments 12-31-08 |
|---|---|---|---|---|
| Governmental Funds: | | | | |
| General | $ 14,976 | $ 75,085 | $ 64,187 | $ 25,874 |
| Motor Vehicle Highway | 37,595 | 16,019 | 34,048 | 19,566 |
| Local Road and Street | 3,078 | 1,916 | 750 | 4,244 |
| Park and Recreation | 25,326 | 274,106 | 249,879 | 49,553 |
| Law Enforcement Continuing Education | 239 | 195 | - | 434 |
| Riverboat | 12,258 | 2,610 | - | 14,868 |
| Van Grant | - | 61,551 | 61,551 | - |
| Fema Grant | - | 9,120 | 9,120 | - |
| Lake Bond and Interest | 994 | 9,876 | - | 10,870 |
| Economic Development | 10,735 | 22 | 10,757 | - |
| Cumulative Capital Improvement | 851 | 1,353 | - | 2,204 |
| Proprietary Funds: | | | | |
| Water Utility - Operating | 5,990 | 98,985 | 97,563 | 7,412 |
| Water Utility - Bond and Interest | 30,419 | 22,925 | 22,240 | 31,104 |
| Water Utility - Customer Deposit | 8,557 | 1,405 | 1,514 | 8,448 |
| Water Utility - Improvement | 22,582 | - | 42 | 22,540 |
| Fiduciary Fund: | | | | |
| Payroll | - | 23,005 | 23,005 | - |
| Totals | $ 173,600 | $ 598,173 | $ 574,656 | $ 197,117 |

| | Cash and Investments 01-01-09 | Receipts | Disbursements | Cash and Investments 12-31-09 |
|---|---|---|---|---|
| Governmental Funds: | | | | |
| General | $ 25,874 | $ 191,234 | $ 55,211 | $ 161,897 |
| Motor Vehicle Highway | 19,566 | 15,250 | 12,551 | 22,265 |
| Local Road and Street | 4,244 | 1,809 | - | 6,053 |
| Park and Recreation | 49,553 | 352,034 | 401,237 | 350 |
| Law Enforcement Continuing Education | 434 | 349 | - | 783 |
| Riverboat | 14,868 | 4,045 | 5,942 | 12,971 |
| Rainy Day | - | 1,148 | - | 1,148 |
| Van Grant | - | 61,640 | 61,640 | - |
| Lake Bond and Interest | 10,870 | 11 | 9,372 | 1,509 |
| Cumulative Capital Improvement | 2,204 | 1,276 | - | 3,480 |
| Proprietary Funds: | | | | |
| Water Utility - Operating | 7,412 | 90,807 | 87,788 | 10,431 |
| Water Utility - Bond and Interest | 31,104 | 19,094 | 47,955 | 2,243 |
| Water Utility - Customer Deposit | 8,448 | 6,898 | 15,196 | 150 |
| Water Utility - Improvement | 22,540 | 85 | 22,625 | - |
| Fiduciary Fund: | | | | |
| Payroll | - | 25,691 | 25,691 | - |
| Totals | $ 197,117 | $ 771,371 | $ 745,208 | $ 223,280 |

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

TOWN OF WAVELAND
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, culture and recreation, 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.

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. Fundraiser Concert

In 2004, the Town formed a committee to raise funds for the revitalization of the Town. The committee decided to hold a concert and found a promoter that said he could get John Mellencamp to perform at the event. In preparation for the concert, the committee incurred $300,000 in expenses. A local businessman guaranteed a note for $178,000 so that the committee would have working capital. The promoter did not produce John Mellencamp and Kenny Rogers was booked as a substitute. The concert revenue was $80,000. At August 31, 2010, the principal and interest due on the guaranteed note was $149,133. Four original members of the Town appointed committee make the payments on this note with their own money. They also make payments relative to a shirt vendor invoice, with an amount due of approximately $5,000.

Note 7. Sale of Town's Water Utility

The sale of the Town of Waveland's Water Utility to Indiana American Water Works Company was finalized on October 26, 2009. The Town had to repay the USDA grant of $329,044 and the outstanding loan of $267,767. The Town received a check in the amount of $93,993.74, the net proceeds of the sale which were receipted into the Town's General Fund.

Note 8. Subsequent Event

The Town received a $999,933 Community Development Block Grant for a storm water drainage project. Construction is expected to begin on the project in February 2011.

TOWN OF WAVELAND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
For The Year Ended December 31, 2009

Capital assets are reported at actual or estimated historical cost. Contributed or donated assets are reported at estimated fair value at the time received.

| Primary Government | Ending Balance |
|---|---|
| Governmental activities: | |
| Capital assets, not being depreciated: | |
| Town: | |
| Land | $ 7,500 |
| Machinery and equipment | 41,754 |
| Total Town capital assets | 49,254 |
| Waveland Lake: | |
| Buildings | 361,847 |
| Machinery and equipment | 416,808 |
| Total Waveland Lake capital assets | 778,655 |
| Total governmental activities, capital assets not being depreciated | $ 827,909 |

TOWN OF WAVELAND
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2009

The Town has entered into the following debt:

| Description of Debt | Ending Principal Balance | Principal and Interest Due Within One Year |
|---|---|---|
| Governmental activities: | | |
| Loans payable: | | |
| Lake Waveland Cabins | $ 25,000 | $ 9,384 |
| Lake Waveland Utility Barn | 1,928 | 1,305 |
| Capital leases: | | |
| Dixie Chopper Mowers | 13,800 | 7,666 |
| Revenue bonds: | | |
| Lake Waveland Shower House | 166,500 | 9,384 |
| Total governmental activities | $ 207,228 | $ 27,739 |

LAKE WAVELAND RECEIPTS NOT DEPOSITED

Receipts of $27,290.94 were determined as collected but not deposited by the Lake Waveland Park Superintendent. Lake Waveland Park receipts include gate fees, camping fees, bait shop sales, firewood sales, boat launch fees, and shelter rentals. Receipt records were not completely presented for examination; however, sufficient evidence was obtained to determine that Lake Waveland Park receipts were not deposited in full. A monthly summary of Lake Waveland Park receipts was presented for examination. The monthly summary listed 2009 Lake Waveland Park receipts as $323,841.47 compared to deposits of $296,550.53. We requested that Mark McDaniel, former Park Superintendent, repay $27,290.94 to the Town of Waveland for Lake Waveland Park receipts not deposited. (See Summary, page 16)

IC 5-13-6-1(c) states in part:

"Public funds deposited . . . shall be deposited in the same form in which they were received."

PERSONAL EXPENSES

Mark McDaniel, former Lake Waveland Park Superintendent, was reimbursed for a debit card purchased at Walmart. Check 12182 was issued to Mark McDaniel for the reimbursement of items including a debit card purchased at Walmart for $410.00 with a $3.00 charge. Mark McDaniel routinely made purchases at Walmart and sought reimbursement from the Town of Waveland for the items purchased. Records were not presented for examination showing the Lake Waveland Park purchases made with the debit card issued from Walmart to Mark McDaniel. We requested Mark McDaniel, former Lake Waveland Park Superintendent, repay the Town of Waveland $413.00 for the debit card not used for Lake Waveland Park purposes. (See Summary, page 16)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FINANCE CHARGES AND LATE FEES

The Town incurred, and subsequently paid, finance charges and late fees of $96.68 for delinquent payment of vendor invoices during 2009. (See Summary, page 16)

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. 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)

AUDIT COSTS - MISSING FUNDS

Additional audit fees were incurred in the investigation of missing funds. The State of Indiana is requesting reimbursement of audit fees incurred in the amount of $4,085.64. (See Summary, page 16)

Audit costs incurred because of theft or shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

## DEPOSITS

As stated in the prior Report B33171, 4 receipts were deposited later than the next business day. In a test of billings, 2 of the 10 payments tested were deposited later than the following business day.

IC 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."

## SALE OF LAKE WAVELAND PARK TIMBER

The Town of Waveland deposited a total of $4,689.20 from the sale of timber logged at Lake Waveland Park. The logger received an equal amount from the timber buyers. An examination by a licensed timber buyer forester indicated that the total stumpage value of the logged trees was $18,545.30. Authorization to log the property was not received from either the Waveland Town Council or the Little Raccoon Conservancy District. The Little Raccoon Conservancy District is the owner of the Lake Waveland Park property.

The lease agreement between the Town of Waveland and the Little Raccoon Conservancy District states that the Park can sell timber "with written consent from the Lessor".

## SALES TAX

Sales tax paid on purchases for Lake Waveland Park was reimbursed to Mark McDaniel, former Lake Waveland Park Superintendent and to Lora Arts, current Lake Waveland Park Superintendent. Mark McDaniel was reimbursed $925.77 and Lora Arts was reimbursed $142.72 for a total of $1,068.49.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

## PAYROLL DEDUCTIONS

Check 11908, dated February 17, 2009, in the amount of $1,192.50, was made payable to Mark McDaniel, Lake Waveland Park Superintendent. The payment was for reimbursement of wages paid to temporary employees. Payment was made to the five employees without payroll deductions for taxes.

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)

## CONDITION OF RECORDS

Financial records presented for examination were incomplete and not reflective of the activity of the Park and Recreation Fund. The records presented did not provide sufficient information to examine or establish beginning balances, receipts, disbursements, ending balances, or the accuracy or correctness of the transactions.

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)

## ERRORS ON CLAIMS

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

(1) Claims were not supported by fully itemized invoices.

(2) All claims did not have board approval.

(3) Claims or invoices did not have evidence to support receipt of goods or services.

IC 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."

## APPROVAL OF CLAIMS

The Lake Waveland Park Superintendents circumvented the claims approval process by using "cash" gate receipts to purchase items for the Lake Waveland Park. Gate receipts should have been deposited in the Lake Waveland Park bank account and all supporting documentation for Lake Waveland Park activity disbursements should be audited and approved by the Clerk-Treasurer and allowed by the Town Council. Examples include Lake Waveland Park purchases of building materials and supplies by the Lake Waveland Park Superintendents. In addition, the Lake Waveland Park Superintendents frequently purchased supplies and other items for resale and were reimbursed by the Town. Former Lake Waveland Park Superintendent Mark McDaniel and current Lake Waveland Park Superintendent Lora Arts were reimbursed $45,903.75 and $5,805.02, respectively, during the examination period.

IC 5-11-10-2(a) states:

"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."

## CASH CHANGE FUND

The Town wrote check 11923, dated February 27, 2009, to Lake Waveland Park Superintendent Lora Arts to establish a cash change fund at Lake Waveland Park. The $500.00 cash change amount was not returned to the Town at the end of 2009. The cash change fund should be returned to the Town General Fund at the end of the 2010 park season.

IC 36-1-8-2 states:

"(a) The fiscal body of a political subdivision may permit any of its officers or employees having a duty to collect cash revenues to establish a cash change fund. Such a fund must be established by a warrant drawn on the appropriate fund of the political subdivision in favor of the officer or employee, in an amount determined by the fiscal body, without need for appropriation to be made for it.

(b) The officer or employee who establishes a cash change fund shall convert the warrant to cash, shall use it to make change when collecting cash revenues, and shall account for it in the same manner as is required for other funds of the political subdivision.

(c) The fiscal body shall require the entire cash change fund to be returned to the appropriate fund whenever there is a change in the custodian of the fund or if the fund is no longer needed."

## PUBLIC RECORDS RETENTION

Complete records of Lake Waveland Park gate receipts and other financial activity were not presented for examination. Individual gate receipts for October 2009 and November 2009 were not presented for examination. Monthly summaries of gate receipts and other Lake Waveland Park receipts were not presented for all months in 2009. The Lake Waveland Park began operations in February 2009 and closed the park in November 2009. Monthly summaries for March, August, and September were presented for examination.

IC 5-15-6-3(f) concerning destruction of public records, states in part:

> "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies received and 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)

## INTERNAL CONTROLS AT LAKE WAVELAND PARK

Controls for receipts generated by Lake Waveland Park were insufficient. Cash registers were used in the gate house by Lake Waveland Park in 2008 to record gate receipts, camping revenue, and other types of receipts. In 2009, cash registers were not used and the Lake Waveland Park used individual generic receipt forms to record gate receipts. Credit cards were accepted as a form of payment in 2008, but were not accepted in 2009.

All 2008 monthly summary receipt reports were presented for examination. Officials produced monthly summary receipt reports only for the months of March, August, and September of 2009.

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)

## CASH DISBURSEMENTS

Disbursements were not always made by check. According to the Town's board minutes, the former Lake Waveland Park Superintendent, Mark McDaniel, used cash gate receipts to purchase items for Lake Waveland Park.

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)

## BOND COVERAGE

The following is a schedule of bond coverage that the Town purchased for Town Board member and Lake Waveland Park Superintendent, Mark McDaniel:

| Surety | Term | Bond Number | Amount |
|---|---|---|---|
| Fidelity and Deposit Company of Maryland | 05-05-08 to 05-05-09 | POB 08913954 | $ 15,000 |
| Fidelity and Deposit Company of Maryland | 05-05-09 to 05-05-10 | POB 891395401 | 15,000 |

TOWN OF WAVELAND
EXIT CONFERENCE

The contents of this report were discussed on November 10, 2010, with Donna Sabolick, Clerk-Treasurer. The official concurred with our findings.

The contents of this report were discussed on November 10, 2010, with Lora Arts, President of the Town Council, and Mary S. Calvert, Town Council member.

TOWN OF WAVELAND
SUMMARY

| | Charges | Credits | Balance Due |
|---|---|---|---|
| Mark McDaniel, | | | |
| former Lake Waveland Park Superintendent: | | | |
| Lake Waveland Receipts Not Deposited, page 9 | $ 27,290.94 | $ - | $ 27,290.94 |
| Personal Expenses, page 9 | 413.00 | - | 413.00 |
| Finance Charges and Late Fees, page 9 | 96.68 | - | 96.68 |
| Audit Costs - Missing Funds, pages 9 and 10 | 4,085.64 | - | 4,085.64 |
| Totals | $ 31,886.26 | $ - | $ 31,886.26 |

AFFIDAVIT

STATE OF INDIANA )
)
Parke COUNTY)

I, Timothy J. Clary, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the Town of Waveland, Montgomery County, Indiana, for the period from January 1, 2008 to December 31, 2009 is true and correct to the best of my knowledge and belief.

Timothy J Clary
Field Examiner

Subscribed and sworn to before me this 10th day of December, 2010.

Kim Shorter
Clerk of the Circuit Court