

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

FINANCIAL STATEMENT EXAMINATION REPORT

OF

CITY OF SOUTHPORT

MARION COUNTY, INDIANA

January 1, 2010 to December 31, 2010



FILED
01/26/2012

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Catherine Hildebrand	08-17-08 to 12-31-11
Mayor	Hon. Robin Thoman	01-01-08 to 12-31-11
President of the Common Council	Susie Schmoll Joe Turner	01-01-10 to 12-31-10 01-01-11 to 12-31-11



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF SOUTHPORT, MARION COUNTY, INDIANA

We were engaged to examine the financial statement of the City of Southport (City), for the period of January 1, 2010 to December 31, 2010. The City's management is responsible for the financial statement.

The City did not properly maintain sufficient competent evidential matter to support the accuracy, allowability, and validity of disbursements. The City's records do not permit the application of other examination procedures to ascertain if the financial statement is fairly stated.

Since the City did not properly maintain sufficient competent evidential matter to support the accuracy, allowability and validity of disbursements and we were not able to apply other examination procedures to satisfy ourselves as to whether the financial statement is fairly stated, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statement.

The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis 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 financial statement. They have not been subjected to the examination procedures applied to the financial statement and, accordingly, we express no opinion on them.

The City's response to the Examination Results and Comments identified in our examination is described in the accompanying section of the report entitled Official Response. We did not examine the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City's management, Common Council, and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

November 30, 2011

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF SOUTHPORT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2010

	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
General	\$ (81,576)	\$ 389,461	\$ 330,052	\$ (22,167)
Motor Vehicle Highway	116,525	103,735	134,720	85,540
Local Road And Street	60,429	27,323	61,716	26,036
Law Enforcement Continuing Ed	5,941	1,295	7,105	131
Rainy Day	-	8,288	-	8,288
Adip	3,475	300,425	18,855	285,045
Public Safety	33,289	36,258	25,517	44,030
Parks, Recreation, And Events	15,876	44,172	79,047	(18,999)
Payroll	113	-	-	113
Totals	<u>\$ 154,072</u>	<u>\$ 910,957</u>	<u>\$ 657,012</u>	<u>\$ 408,017</u>

The notes to the financial statement are an integral part of this statement.

CITY OF SOUTHPORT
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides some or all of the following services: public safety (police), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, and trash.

The accompanying financial statement presents the financial information for the City (primary government), and does not include financial information for any of the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial information of the City (primary government).

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts may include, but are not limited to, the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

CITY OF SOUTHPORT
NOTES TO FINANCIAL STATEMENT
(Continued)

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements may include, but are not limited to, the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

CITY OF SOUTHPORT
NOTES TO FINANCIAL STATEMENT
(Continued)

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. 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 percent 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 normally become delinquent if not paid by May 10 and November 10, respectively.

Note 3. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be 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 statutes authorize the City 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 SOUTHPORT
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. Risk Management

The City may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statements. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the City by recording as a disbursement and replacement items purchased.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's Annual Report can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the examination. This is a common occurrence in any financial statement examination. The financial information presented in this report is examined information, and the accuracy of such information can be determined by reading the opinion given in the Independent Accountant's Report.

The supplementary information presented was prepared and/or approved by management of the City. It is presented as intended by the City.

CITY OF SOUTHPORT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010

	General	Motor Vehicle Highway	Local Road And Street	Law Enforcement Continuing Ed	Rainy Day
Cash and investments - beginning	\$ (81,576)	\$ 116,525	\$ 60,429	\$ 5,941	\$ -
Receipts:					
Taxes	210,928	-	-	-	-
Licenses and permits	3,416	200	-	830	-
Intergovernmental	122,822	100,651	26,823	-	8,288
Charges for services	-	-	-	465	-
Other receipts	52,295	2,884	500	-	-
Total receipts	<u>389,461</u>	<u>103,735</u>	<u>27,323</u>	<u>1,295</u>	<u>8,288</u>
Disbursements:					
Personal services	122,384	3,162	-	-	-
Supplies	18,521	2,005	2,650	5,248	-
Other services and charges	184,024	119,314	53,683	1,857	-
Capital outlay	5,123	10,239	5,383	-	-
Other disbursements	-	-	-	-	-
Total disbursements	<u>330,052</u>	<u>134,720</u>	<u>61,716</u>	<u>7,105</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>59,409</u>	<u>(30,985)</u>	<u>(34,393)</u>	<u>(5,810)</u>	<u>8,288</u>
Cash and investments - ending	<u>\$ (22,167)</u>	<u>\$ 85,540</u>	<u>\$ 26,036</u>	<u>\$ 131</u>	<u>\$ 8,288</u>

CITY OF SOUTHPORT
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Adip	Public Safety	Parks, Recreation, And Events	Payroll	Totals
Cash and investments - beginning	\$ 3,475	\$ 33,289	\$ 15,876	\$ 113	\$ 154,072
Receipts:					
Taxes	-	-	35,837	-	246,765
Licenses and permits	-	-	-	-	4,446
Intergovernmental	-	36,258	5,408	-	300,250
Charges for services	-	-	-	-	465
Other receipts	300,425	-	2,927	-	359,031
Total receipts	300,425	36,258	44,172	-	910,957
Disbursements:					
Personal services	-	-	15,951	-	141,497
Supplies	-	5,537	6,896	-	40,857
Other services and charges	18,855	4,965	28,285	-	410,983
Capital outlay	-	15,015	20,335	-	56,095
Other disbursements	-	-	7,580	-	7,580
Total disbursements	18,855	25,517	79,047	-	657,012
Excess (deficiency) of receipts over disbursements	281,570	10,741	(34,875)	-	253,945
Cash and investments - ending	\$ 285,045	\$ 44,030	\$ (18,999)	\$ 113	\$ 408,017

CITY OF SOUTHPORT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2010

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Bond payable:		
General obligation bond:		
Road Projects	\$ 305,000	\$ 77,021

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS

FINANCIAL REPORT OPINION MODIFICATION

The 2010 financial statement, as adjusted for receipt posting errors, has been presented based on the Annual Report submitted by the City of Southport. The information presented for examination did not contain sufficient evidence to support the accuracy, allowability, and validity of the disbursements reported. Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the financial statement presented in the Independent Accountant's Report.

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

APPROVAL OF CLAIMS

Approval of expenditures was performed by several different boards. The Common Council, Board of Safety, and Board of Public Works each acted as the body with jurisdiction over the allowance of claims. A single body was not designated by ordinance to approve the allowance of claims.

Additionally, the approval of claims should be reflected on the original signed monthly Register of Claims (Registers). Testing determined that not all original signed registers were presented for examination. Some reprinted and unsigned registers were provided.

From present city administration statutes, IC 36-4-8, Home Rule, IC 36-1-3, and inferences contained in the old, repealed statutes, (IC 18-1-20-1), we formulated the following audit position. The State Board of Accounts will not challenge the authority for either the Board of Public Works and Safety or the Common Council to approve and allow city claims. (Presently in a few cities, both groups are reviewing claims.) This refers to those claims not required, by statute, to be reviewed and allowed by some other city department or city agency.

In those few instances where there is a dispute regarding who has this authority, we feel the Common Council has authority, by ordinance, to delegate this authority to a city body such as the Board of Public Works and Safety or themselves or, with continued dispute, pursuant to IC 36-4-4-5, the question can be presented to a court of competent jurisdiction. (Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2003)

Indiana Code 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."

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

ERRORS ON CLAIMS

The following deficiencies were noted in a test of 25 disbursements selected randomly, unless otherwise stated:

1. Accounts Payable Vouchers were not prepared for all disbursements. There were 16 checks identified which were issued without an Accounts Payable Voucher being prepared for the disbursement posted.
2. There were six instances identified where an Accounts Payable Voucher was used but did not have adequate supporting documentation attached.
3. Three of the disbursements did not have evidence to support receipt of goods or services.
4. Nine of the of the disbursements tested were not approved by the fiscal officer who is required to audit and certify that the payment is true and correct; this is done by signing the Accounts Payable Voucher or the Accounts Payable Voucher Register.
5. There were 10 payments identified with no evidence of Board approval. The lack of Board approval was due to the Board not signing the Accounts Payable Voucher Register (Register), the Register not being presented to the Board for approval, or the Register not being presented for examination. There was one instance where the Council denied payment which was noted on the Register. Further information indicated the Board of Public Works had approved the payment, but no signed Register was presented for examination supporting the approval.
6. None of the January supporting documents for disbursements or approved Accounts Payable Registers were presented for examination.
7. Payments were not always made for the current amounts due. Four instances were identified in a test of 15 payments which indicated there was either a balance due or a credit amount from a prior month.

Some of the issues noted above appeared in the prior two reports, most recently Report B38004.

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;

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (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."

EXPENSE REIMBURSEMENT

Records presented for examination included seven disbursements to the Mayor totaling \$7,227.17 for various reimbursements during 2010. There were some issues identified with these payments that were not in accordance with the proper allowance of payments.

Two of the payments were made without evidence of any Board approval. Listings of the payments were on unsigned Accounts Payable Voucher Registers. Two of the payments did not have proper supporting documentation to identify the items purchased. In addition, several of the payments were not recorded as disbursements from the proper fund. Finally, some of the equipment could not be located on the City's property. See the following detail of all seven payments:

Date Paid	Fund From Which Paid	General Description	Amount Reimbursed	Expense Paid by Correct Fund	Evidence of Board Approval	Sufficient Documentation - Invoice or Evidence
March 7, 2010	Park, Recreation, and Events	2009 Personal cell phone usage	\$ 1,269.98	No	Yes	No
April 5, 2010	Local Road and Street	Drain jetting 300' of South Street	1,000.00	Yes	No	Yes
June 9, 2010	Motor Vehicle Highway	9 magnetic white boards and tent for fair	1,239.01	No	No	No
August 5, 2010	Park, Recreation, and Events	Video camera with 8 SD cards	1,483.87	No	Yes	Yes
October 1, 2010	Park, Recreation, and Events	27 t-shirts from Lands End purchased for City officials, Board members, and police officers	1,051.10	Yes	Yes	Yes
October 5, 2010	General	17 Land's End shirts for all City employees and phone charges for Go Daddy services	433.29	Yes	Yes	Yes
December 5, 2010	General	Computer equipment	739.90	Yes	Yes	Yes

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)

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)

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

FINANCE CHARGES

The City incurred, and subsequently paid, financial charges for delinquent payments of vendor invoices during 2010 in the amount of \$246.38. The late payments occurred throughout the year.

We have requested Catherine Hildebrand, Clerk-Treasurer, to reimburse the City \$246.38 in finance charges incurred during 2010. (See Summary, page 30)

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)

CONDITION OF RECORDS

As similarly stated in prior Report B38004, the following deficiencies, relating to the recordkeeping were identified:

1. There were a considerable number of posting errors. These errors included deposits not receipted, checks and deposits not recorded in the proper amounts, and interest not posted.
2. Some payments did not have an Accounts Payable Voucher prepared for the payment. Only a check register was prepared for these payments. The bill and copy of the check remittance advice were attached to serve as documentation. We could not locate all of the original Accounts Payable Voucher Registers. (See comment – "Errors on Claims")
3. Due to issues with the software, the 2010 records to date do not carry the balances reported on the 2010 Annual Report. Some of the adjustments identified by the consultant were not made to the 2011 records.
4. Records were not maintained in an organized manner, but some improvement was noted in 2010 compared to 2009.
5. The deposit register was prepared but receipts were not written or issued. Persons paying for various services or fees, such as, hand gun permits, park rental payments, diversion fees, or other such collections did not receive a receipt. (See comment – "Receipt Issuance")
6. The January 2010 file with the Accounts Payable Voucher Registers and the Accounts Payable Vouchers with supporting documentation was not located. This information was not available for examination. Bank information for January and February was obtained from the bank, since the original documents could not be located. (See comment – "Errors on Claims")
7. An official minute book was not maintained. Minutes were approved by the various boards and available online, but this permanent record of the Board proceedings has not been preserved for several years.

CITY OF SOUTHPORT
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)

Indiana Code 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."

This department does not prescribe a Minute Record. However, this is one of the most important records that will be kept by the Clerk-Treasurer. All official action taken by the board at regular or special meetings together with ordinances passed should be entered in the Minute Record. This record should be kept current and we recommend that all minutes be signed by the proper official and attested to by the Clerk-Treasurer. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

RECEIPT ISSUANCE

As similarly stated in the prior Report B38004, concerns were identified with the City's receipt issuance. Receipts were not always written and the receipts written were not issued but assigned for recording purposes in the accounting system. During our testing, we identified seven deposits which did not agree with receipts written. For five deposits, no receipts were written at all for the money deposited. For two of the deposits, the receipts written were less than the amount deposited. Interest earned on the account was not always receipted, so it was not recorded. With the assistance of a consulting firm hired in 2011, the Clerk-Treasurer identified the unrecorded deposits and adjusted the 2010 Annual Report to include these funds deposited.

Additionally, other employees receive money for the City and do not issue receipts. Payments for gun permits, park fees, permit fees, ordinance violations, etc., were collected by various persons and receipts were not issued for these collections. In these cases, the employee collected the money and gave it to the Clerk-Treasurer for her to receipt and deposit. The person paying was not issued a receipt at the collection point or by the Clerk-Treasurer, which is a control weakness.

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)

BANK ACCOUNT RECONCILIATIONS

As similarly stated in the prior Report B38004, depository reconciliations of the fund balances to the bank account balances were not done monthly and were not presented for examination. The reconciliation for December 31, 2010, was performed by a consultant. Testing identified some errors in the outstanding check listing. Without a timely and accurate reconciliation, errors in cash receipts, disbursements, and balances may exist without being found on a timely basis.

Indiana Code 5-13-6-1(e) states: "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."

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

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)

OVERDRAWN FUND BALANCES

The General Fund and the Park, Recreation, and Events Fund were overdrawn at December 31, 2010, in the amounts of \$22,167 and \$18,999, respectively.

The fund 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)

BUDGET NOT APPROVED

No budget ordinance was adopted for 2010 or 2011. The City did not have a Department of Local Government and Finance (DLGF) approved budget in effect for 2010. The City reverted back to the last approved budget, which was approved in 2008 for 2009. During 2010, the City did not get approval for the 2011 budget. No approval for additional appropriations was presented for examination.

Indiana Code 36-4-7-7 states:

"(a) The fiscal officer shall present the report of budget estimates to the city legislative body under IC 6-1.1-17. After reviewing the report, the legislative body shall prepare an ordinance fixing the rate of taxation for the ensuing budget year and an ordinance making appropriations for the estimated department budgets and other city purposes during the ensuing budget year. The legislative body, in the appropriation ordinance, may reduce any estimated item from the figure submitted in the report of the fiscal officer, but it may increase an item only if the executive recommends an increase. The legislative body shall promptly act on the appropriation ordinance.

(b) In preparing the ordinances described in subsection (a) the legislative body shall make an allowance for the cost of fire protection to annexed territory described in IC 36-4-3-7(d), for the year fire protection is first offered to that territory."

Indiana Code 36-4-7-11 states: "If the city legislative body does not pass the ordinance required by section 7 of this chapter before November 2 of each year, the most recent annual appropriations and annual tax levy are continued for the ensuing budget year."

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

APPROPRIATIONS

The 2010 appropriation amounts have continued from year to year, since the last authorized budget amounts from 2008. (See comment – "Budget Not Approved") The records presented for examination indicated the following expenditures in excess of budgeted appropriations:

Fund	Excess Amount Expended
General	\$ 20,035
Local Road and Street	43,434
Motor Vehicle Highway	37,623
Adip	18,855
Law Enforcement Continuing Ed	7,105

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."

ORDINANCE VIOLATIONS BUREAU – TRAFFIC DIVERSION PROGRAM

The City of Southport Police Department was issuing citations/tickets in 2010 and 2011 to motorists who violated the speed limits or committed selected limited offenses. Some of the motorists were determined to be eligible for a Safe Driver Diversion Program administered by the City of Southport which allowed the motorist's speeding citation to be withheld from the Marion County Court (Court) system. The eligible motorist received written instructions at the time of the traffic stop which stated they were allowed to enter the Traffic Diversion Program, a deferral program, if they agreed to sign the form and return it within the next 20 days with a payment of \$150.00 in the form of a check or money order. The payments were to be sent to the City by mailing to a post office box which was emptied by the Ordinance Violations Clerk. If the motorist chose not to participate, the Ordinance Violations Clerk would forward the ticket to the Marion County Court. The 2010 records provided for examination indicated that at least 96 payments were made to the City related to this program. This type of program is not allowable.

As stated in Indiana Code 36-1-6-3:

"(a) Certain ordinances may be enforced by a municipal corporation without proceeding in court through:

- (1) An admission of violation before the violations clerk under IC 33-36; or
- (2) administrative enforcement under section 9 of this chapter.

(b) Except as provided in subsection (a), a proceeding to enforce an ordinance must be brought in accordance with IC 34-28-5, section 4 of this chapter, or both.

(c) An ordinance defining a moving traffic violation may not be enforced under IC 33-36 and must be enforced in accordance with IC 34-28-5."

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

TRAFFIC DIVERSION PROGRAM - INTERNAL CONTROLS

Controls over the receipting, recording, and accounting for the financial activities were insufficient for the tracking of the tickets issued and the money collected for the Southport Traffic Diversion Program. We found several weaknesses in the system established during our examination and testing. The tickets were given to the Ordinance Violations Clerk (Clerk) for her to manage the execution of the program (i.e., follow through with tracking and collection or forwarding the unpaid ticket to the Court). The Clerk would empty the post office box once or twice a week. A spreadsheet was developed by the Clerk to track the tickets and payments received. The Clerk gave the money collected to the Clerk-Treasurer for her to deposit. The current Clerk also prepared a summary amount along with copies of the tickets and payments given to the Clerk-Treasurer. The Clerk filed the tickets numerically after they were paid. She kept them together by date prior to payment. She also sent unpaid tickets to the Court.

We tested the tickets written for the month of August 2010. The primary weakness was the lack of segregation of duties between collection of payments and recording the payment regarding the resolution of the outstanding ticket. Another weakness was failure to track all of the tickets provided to the Clerk and their final outcome. The collections for the diversion fees were deposited at the end of the month rather than daily as required.

In testing the month of August, we identified that there was no process in place to account for or track all of the tickets received by the Clerk which were eligible for the deferral program. We were not able to determine how many tickets were issued to motorists who were eligible for the Traffic Diversion Program, because no complete listing was made of all tickets given to the Clerk. Since some motorists may not have paid Southport and their tickets should have been sent to the Court, no audit trail existed for these tickets within the records kept by the Clerk. We examined and tested the 98 tickets provided. Of the 98 tickets, 11 did not pertain to the program. The Clerk's spreadsheet only listed 31 tickets for the month of August 2010. In our testing, we found payments for all of the tickets listed on the spreadsheet by tracking the information from the spreadsheet or ticket to payments on the Clerk-Treasurer's deposit tickets. No receipts were written for these payments by the Clerk. The Clerk-Treasurer's records did not list the payer on the receipt posting, but listed Southport Police Department as the payee. This was not a sufficient audit trail to track payment within the records, since an adequate receipt was not issued. Additionally, no receipt was written to the Clerk by the Clerk-Treasurer when money was transferred between persons. Incidentally, some variations in procedures were noted based on this month's test including: the Clerk-Treasurer received a few payments for the traffic diversion program; some cash payments were received; and some motorist's tickets were still on hand past the 20 day period established by the Program.

In the same group of 98 tickets, there were 48 tickets which were stamped void. Further inquiry of the Police Chief indicated that these tickets were held by Southport past a 60 day period from date of issuance, so they could not be sent to the Court, and were voided instead. Weaknesses included: failure to follow the guidelines for nonpayment and, more significantly, that procedures did not detect this failure. Also, there were eight other tickets which were not marked void, nor listed on the spreadsheet, and no payment was located for them on the deposit tickets. We were unable to determine the final status concerning collection for those tickets. As noted above, control over these tickets was not exercised and it was not possible to determine if the motorists paid or not.

CITY OF SOUTHPORT
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)

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."

ANNUAL REPORT

An Annual Report for 2010 was filed with the State Board of Accounts in June 2011. The Annual Report should have been filed with the State Board of Accounts no later than March 1, 2011.

Indiana Code 5-11-1-4 states in part:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be filed electronically, in a manner prescribed by the state examiner that is compatible with the technology employed by the political subdivision."

DISTRIBUTIONS – POSTING ERRORS

State Distributions

Several errors were made in properly posting the state distributions during 2010. There were seven state distributions that were receipted to the wrong funds. Additionally, there were two other distributions that were not receipted to the records during the year, but these omissions were corrected when the Annual Report was prepared. Because all state distributions were received by electronic transfer of funds, all distributions were deposited. The 2010 Financial Statement has been adjusted to reflect the proper amounts. The Clerk-Treasurer should record the following transfers between funds to correct the 2010 recordkeeping errors.

<u>Transfer From</u>	<u>Transfer To</u>	<u>Total of Distribution Amounts</u>
General Fund	Motor Vehicle Highway Fund	\$ 15,606.27
General Fund	Local Road and Street Fund	5,032.32
Motor Vehicle Highway Fund	Local Road and Street Fund	2,209.56
Local Road and Street Fund	General Fund	247.50

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Local Tax Distributions

Three local tax distributions during 2010 were posted to the wrong fund. Two other distributions were not receipted initially, but were corrected when the Annual Report was prepared. Because all local tax distributions were received by electronic transfer of funds, all distributions were deposited. Due to the improper posting of these local tax distributions, the 2010 Financial Statement has been adjusted to reflect the proper amounts. The Clerk-Treasurer should record the two transfers between funds to correct the 2010 recordkeeping errors. The General Fund should transfer \$69.32 to the Park Fund and the Motor Vehicle Highway Fund should transfer \$11,641.78 to the General Fund.

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)

SALARY ORDINANCE

A new salary ordinance has not been adopted since 2007, when the compensation rates of pay were established for 2008. The Police Chief's salary was changed in 2010 without written Council approval. The change went from an annual salary which was paid monthly to paying a fixed amount for the Police Chief position plus an hourly rate (same as approved police officer hourly rate). This occurred when the Police Department was restructured. Also, the rate of pay approved for the Park Director Assistant was \$10.50 an hour, but was changed to \$12.00 an hour. Again, no written approval was located for this change.

Indiana Code 36-8-3-3(d) states:

"The annual compensation of all members of the police and fire departments and other appointees shall be fixed by ordinance of the legislative body not later than September 30 of each year for the ensuing budget year. The ordinance may grade the members of the departments and regulate their pay by rank as well as by length of service. If the legislative body fails to adopt an ordinance fixing the compensation of members of the police or fire department, the safety board may fix their compensation, subject to change by ordinance."

Indiana Code 36-4-7-3 states:

"(a) This section does not apply to compensation paid by a city to members of its police and fire departments.

(b) Subject to the approval of the city legislative body, the city executive shall fix the compensation of each appointive officer, deputy, and other employees of the city. The legislative body may reduce but may not increase any compensation fixed by the executive. Compensation must be fixed under this section not later than September 30 of each year for the ensuing budget year.

(c) Compensation fixed under this section may be increased or decreased by the executive during the budget year for which it is fixed.

(d) Notwithstanding subsection (b), the city clerk may, with the approval of the legislative body, fix the salaries of deputies and employees appointed under IC 36-4-11-4."

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

FEDERAL TAX FORMS - FORM 1099-MISC AND FORM 1096

The original Federal Form 1096, Annual Summary and Transmission of US Information Returns, was not provided for examination, but a reprint of the form was provided on plain paper. The Form 1096 is a summary of the 1099-MISC, Miscellaneous Income, forms filed. The City of Southport did not present for examination the original completed Form 1099-MISC, as given to vendors and filed with the Internal Revenue Service (IRS). Handwritten Forms 1099-MISC were provided for examination. They did not include the payee's federal identification number, which is required information on this IRS form.

Since the original forms were not provided for examination and the Form 1099-MISC was incomplete, it was not possible to determine if the Clerk-Treasurer properly filed the required documents.

Additionally, we could not determine if the Clerk-Treasurer issued Form 1099-MISC for all vendors. The reproduced Form 1096 indicated 46 vendors had been included with total payments of \$450,392.44. We were provided only 42 vendor's Form 1099-MISC totaling \$438,880.84. We were unsure of the name and amount of the other four vendors. We did identify three other vendors who should have received Form 1099-MISC. The payments to the three vendors totaled \$23,456.25 which, when combined with the 42 vendors, exceeded the total reported on the Form 1096. We traced several amounts reported on the Form 1099-MISC to the general ledger report without any exceptions. The total reported on the Form 1096 was less than the combined total of the Form 1099-MISC presented for examination and the three additional vendor amounts identified during the examination.

Since the total of the forms provided did not agree with the amount reported, we cannot tell if the City complied with directives of the Internal Revenue Service concerning filing Form 1099-MISC. A similar comment was discussed in prior report B38004.

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PRESCRIBED FORMS

The following prescribed or approved forms were not always in use:

Payroll Schedule and Voucher (General Form 99)
Employee's Earnings Record (Gen. Form 99B)
Accounts Payable Voucher (City and Town Form 39)
Clerk-Treasurer's Receipt (City and Towns Form 217)

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)

OFFICIAL BOND

As previously reported in B38004, the Clerk-Treasurer's official bond was not filed in the Office of the County Recorder.

CITY OF SOUTHPORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

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 . . ."

LIST OF EMPLOYEES NOT FILED WITH COUNTY TREASURER

A list of employees was not certified to the County Treasurer.

Indiana Code 6-1.1-22-14(a) states in part:

"On or before June 1 and December 1 of each year . . . the disbursing officer of each political subdivision . . . shall certify the name and address of each person who has money due from the political subdivision to the treasurer of each county in which the political subdivision is located."

OFFICIAL'S BOND COVERAGE

Catherine Hildebrand, Clerk-Treasurer of the City of Southport, obtained a surety bond from Travelers Casualty and Surety Company of America in the amount of \$30,000 covering the period of January 1, 2010 to January 1, 2011.

CITY OF SOUTHPORT
EXIT CONFERENCE

The contents of this report were discussed on November 30, 2011, with Catherine Hildebrand, Clerk-Treasurer, and Hon. Robin Thoman, Mayor. The Official Response has been made a part of this report and may be found on pages 28 and 29.



State Board of Accounts
302 W Washington St. E418
Indianapolis, IN
46204-2765

Community for Life

2010 Exit Conference: Official's Response

December 5, 2011

To Whom It May Concern:

EXPENSE REIMBURSEMENT:

There are seven disbursements cited in the report associated with reimbursements to the mayor for personal payments made on behalf of the City. Three of the seven disbursements were apparently in full compliance. Four of the remaining disbursements warranted comments from the field examiner and related to three separate issues and some related to more than one issue.

- Was there sufficient documentation provided?
- Was there evidence of Board approval?
- Was the expense paid from the correct fund?

All are good questions and each issue requires more knowledge of the circumstances of each in order to best understand the propriety of these expenses or reimbursements.

Regarding **sufficient documentation**, there were two claims mentioned:

The first was for reimbursement for **cell phone expenses**. As there is only one City phone number published, and as funding was not authorized for full time receptionist or after-hours emergency phone support; the mayor had all phone calls forwarded to a cell phone and personally answered all incoming municipal calls (24-7). All outgoing calls for the city were made using the same cell phone services. Additionally, all mayoral eMails and TXT messages, ie. MECA (Marion-County Emergency Communications Agency or City employees and vendors) were also directed to the mayor's cell phone for immediate response as needed.

A summary report of those expenses was provided to the clerk-treasurer and accompanied with documents with personal attestations for those expenses. Although additional documentation could have been provided by the mayor, no such request was made by the approving Board, the clerk-treasurer or field examiner.

The second claim with comments of unsupported documentation involved reimbursement for **the purchase of display easels** used during City events, City meetings and City sponsored training sessions.

The original purchase order from the vendor and matching (proof of) credit card expense was provided to the clerk-treasurer for reimbursement.

Regarding necessary **evidence of Board approval** there were also two reimbursements cited by the field examiner.

Both invoices (**purchase of easels & storm-water drain services**) were reviewed by the Board of Public Works and were included in the *Register of Claims* prepared by the clerk-treasurer.

Verbal (during board consideration of the claim) and written documentation was available for the Board members review.

Both reimbursements were approved during the official Board meeting. The field examiner requested, but was not supplied a signed register of those claims although approved Minutes of the respective meetings accurately reflects approval of both of these reimbursements.

The last issue mentioned by the field examiner was whether three specific claims were **paid from the correct fund.**

Two of the expenses cited (easels & video camera) are currently **used by different departments at different times.** The **easels** (also described above) were used first at a City sponsored event to display public works projects involving parks, storm-water and motor vehicle and highway projects. Later this equipment was used in training sessions, workshops, community gatherings and at various Board or Council meetings. The **video camera** has been handy during research for (and recording of) park events and recreational activities sponsored by the City. Video is also used to record public gatherings, crime scenes, SoPD training activities, construction projects and building commission activities.

In a City the size of Southport, the equipment needs to be shared among departments. It doesn't make sense to purchase a separate video camera or easels for each indicated department. These purchases were reimbursed using available funds from the department that first required the equipment.

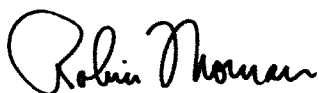
All of these reimbursed expenses were within the allowed (council) budgeted appropriations.

Also mentioned as a disbursement from an incorrect fund was the reimbursement for cellular phone services described earlier. For many, many years, all expenses associated with telephony services have been mistakenly drawn from the park fund. This fund has been routinely used for expenses associated with the City building, community room, police department and DPW garage – probably rationalized because *the building was near the park property.*

This (incorrect) practice has been occurring long before cell (phone) services were around. When the first cellular billing was encountered, these claims were entered in the same telephone account and drawn from the same fund.

Applying any phone expenses or general utility expenses to the Park Fund has been discontinued and the practice corrected in 2011.

Respectfully;



Dr. Robin Thoman
Mayor, City of Southport

CITY OF SOUTHPORT
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Catherine Hildebrand, Clerk-Treasurer: Finance Charges, page 18	<u>\$ 246.38</u>	<u>\$ -</u>	<u>\$ 246.38</u>

AFFIDAVIT

STATE OF INDIANA)
MARION COUNTY)

I, Elizabeth R. Sternberg, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the City of Southport, Marion County, Indiana, for the period from January 1, 2010 to December 31, 2010, is true and correct to the best of my knowledge and belief.

Elizabeth R. Sternberg
Field Examiner

Subscribed and sworn to before me this 30th day of December, 2011.

Kay Magey
Notary Public

My Commission Expires: 3/10/2016

County of Residence: MARION