

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF DEMOTTE

JASPER COUNTY, INDIANA

January 1, 2011 to December 31, 2014



FILED
11/06/2015

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|---|--|--|
| Clerk-Treasurer | Margaret Michelin | 01-01-08 to 12-31-15 |
| President of the Town Council | Mark Boer | 01-01-11 to 12-31-15 |
| Town Court Judge | Greg Osborn (Vacant) Scott Osborn (Vacant) Russell D. Bailey | 01-01-11 to 06-30-14 07-01-14 to 08-31-14 09-01-14 to 12-31-14 01-01-15 to 04-22-15 04-23-15 to 12-31-15 |
| Superintendent of Street Department | Paul Featherston Jeff Powers | 01-01-11 to 03-12-12 03-13-12 to 12-31-15 |
| Superintendent of Wastewater Utility | Richard Higgins Robert Barton | 01-01-11 to 03-31-14 04-01-14 to 12-31-15 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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

TO: THE OFFICIALS OF THE TOWN OF DEMOTTE, JASPER COUNTY, INDIANA

This report is supplemental to our examination report of the Town of DeMotte (Town), for the period from January 1, 2011 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Examination Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statements Examination Report of the Town, which provides our opinion on the Town's financial statements. This report may be found at www.in.gov/sboa/.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Examination Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Examination Results and Comments, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

August 27, 2015

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CLERK-TREASURER
TOWN OF DEMOTTE

CLERK-TREASURER
TOWN OF DEMOTTE
EXAMINATION RESULTS AND COMMENTS

OFFICIAL BOND

The Town Manager's latest recorded Surety Bond was for \$10,000.

Indiana Code 5-4-1-18(c) states in part: "The amount of the bond of any other person required to file an individual bond shall be fixed by the fiscal body of the unit at not less than fifteen thousand dollars (\$15,000)."

PAYROLL DEFICIENCIES

We noted the following deficiencies during our review of payroll:

1. The Town paid all full-time employees compensation in advance of the actual hours worked. The pay date is the last day of the pay period.
2. The Town's salary ordinance does not address police employee's overtime. The regular hours scheduled to be worked should be indicated in the salary ordinance in order to calculate the number of overtime hours. The hourly overtime rate for all employees is not included in the salary ordinance.
3. In 2014, the Pool Director was paid in accordance with the 2013 salary ordinance. Also, the Pool Director's name was not included in the list of Town employees that is given to the County Treasurer in accordance with Indiana Code 6-1.1-22-14(a).
4. The leaf pickup service provider was paid an hourly rate. He was not included in the salary ordinance nor did the Town have a contract with him.

Salaries and wages of public officers may not be paid in advance. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit should adopt a written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the governing board would be considered as written policy. The policy should conform to the requirements of all state and federal regulatory agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Payments for services provided by an organization should go directly to the organization and not to an individual employee of the organization. All payments for services should be supported by a written contract. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CLERK-TREASURER
TOWN OF DEMOTTE
EXAMINATION RESULTS AND COMMENTS
(Continued)

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

| <u>Fund</u> | <u>Years</u> | <u>Excess Amount Expended</u> |
|--------------------------|--------------|---------------------------------------|
| Rainy Day Fund | 2011 | \$ 128,265 |
| Lease Rent Pmt | 2012 | 64,107 |
| Lease Rent Pmt | 2013 | 2,603 |
| Cumulative Capital Imprv | 2013 | 20,610 |
| Rainy Day Fund | 2014 | 73,899 |
| Lease Rent Pmt | 2014 | 6,946 |

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."

UTILITY LOANS RECEIVABLE

The Northwest Jasper Regional Water District (District) was organized in 2004 for the purpose of constructing and operating a Water Utility for the Town of DeMotte.

In order for the District to apply for the grant money necessary to fund the project, the Wastewater Utility (Utility) paid for various expenses related to the planning stage of the project. The Utility then secured promissory notes for \$141,872 in 2004, \$4,663 in 2006, \$300 in 2007, and \$76,982 in 2008 from the District to provide for the reimbursement of these advances when the District received their grant funds. The Utility made additional advances to the District of \$1,732 in 2009, \$852 in 2010, \$3,828 in 2011, \$905 in 2012, and \$100,000 in 2014 for which no promissory notes were secured. The total due to the Utility from the District as of December 31, 2014, was \$331,134. As of August 27, 2015, the District has not made any payments on these loans.

A similar comment appeared in prior Reports B29687, B34170, and B38661.

Governmental units have the responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

UNALLOWABLE TRANSFERS

A transfer was made from the Sewage Utility Operating fund to the Town's General fund in 2014 totaling \$100,000. The transfer was approved by the Town Council.

CLERK-TREASURER
TOWN OF DEMOTTE
EXAMINATION RESULTS AND COMMENTS
(Continued)

A transfer was made from the Levy Excess fund to the General fund totaling \$51,019 in 2014. The transfer was approved by the Town Council. The Department of Local Government Finance (DLGF) did not request the Town to make this transfer. The DLGF did request the Town to include, as a transfer from the Levy Excess fund, \$8,916 for its 2011 budget and \$20,091 for its 2013 budget. However, the Town did not transfer those amounts in 2011 or 2013.

Establishment of a Cash Reserve Fund permits transfer of surplus utility funds to the city or town general fund. After appropriation, such transferred funds may then be used for any legal general fund purpose. (Accounting and Uniform Compliance Manual for Cities and Towns, Chapter 7)

Indiana Code 8-1.5-3-11(d) states in part: ". . . transfers may not be made from any utility funds to the general fund except from the cash reserve fund."

The statute provides that the Department of Local Government Finance may require a taxing unit to include the amount in its Levy Excess Fund in the taxing unit's budget. After the budget has been approved, the amount in the Levy Excess Fund should be transferred from the Levy Excess Fund by warrant (check) and quietus (receipt) to the fund or funds in which the reductions were made to reduce the amount to be raised by taxation. (Accounting and Uniform Compliance Manual for Cities and Towns, Chapter 7)

Town of DeMotte

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www.townofdemotte.com

2011 – 2014 Town of DeMotte Examination Comments

Police Department Fees –

On August 24, 2015, the town council has passed a resolution regarding all fees that are collected at the police department. FIXED

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2011 – 2014 Town of DeMotte Examination Comments

Condition of Court Files

Russell Bailey being elected into office as of April 2015, he is taking steps that will ensure record compliance and monthly reconciliation.

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2011 – 2014 Town of DeMotte Examination Comments

Official Bond

The bond for the Town Manager will be increased. Insurance company was contacted and a new bond will be issued.

Payroll Deficiencies

Payroll as of 2016 will be paid on the Friday after the end of payroll. The town will be switching to a bi-weekly pay schedule with payroll from the 2 prior weeks due on the following Monday and employees will be paid on Friday or earlier with a holiday.

Appropriations

It was determined that the fund had the cash balances to fund the expenditures. However, during this examination it was realized that the Rainy Day Fund (2011 and 2014) Lease Rent (2012, 2013, 2014) CCI fund were spent in excess of their budget.

In 2011 and 2014 the Town of DeMotte realized natural disasters. In June of 2011 the town was forced to clean up from thousands of trees that were uprooted during a straight line wind storms on June 2, 2011. We received payments from the Department of Home Land Security of \$73107.07 in aide that was deposited into this fund on May of 2012. In addition, at this same time we also transferred \$118,670 into the rainy day fund from the general fund.

In 2014 yet another disaster had hit the town. The southern portion of the town was in the direct path of a tornado. Fortunately, the tornado only damaged one home, several grain bins, and a barn. The town was forced to clean up hundreds of trees that were uprooted from the road right of way.

Also in 2014 during this year we had a snow storm that was deemed an emergency, culvert that collapsed and a road that had caved in due to the amount of rain that had fallen. We received \$5509.52 from FEMA for the snow storm. In

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August we received an insurance payment of \$7459 to help fund the damage from the tornado. The insurance company only paid for the tree removal if the **2011 – 2014 Town of DeMotte Examination Comments (Cont)**

trees had fallen on a structure. This year, we did not get any assistance with this disaster since the damage was localized. In order to realize any funding we had to meet a federal and statewide requirements. The threshold for our community was met. However, since we did not realize the amount of expenditures for the state to qualify for any relief. House Representative Douglas Gutwien and State Senator Ed Charbonneau's offices were contacted to obtain guidance and assistance with this cost. Nothing was available to help us. In December of 2014 the general fund transferred \$115,000 in funds back into the rainy day fund to help start building this fund back up again.

In 2013 the Town of DeMotte has encumber funds for computers and for paving of Carnation ST. SE in the CCD fund. PO's were received and the money was transferred from 2012 to 2013 in the budget system.

In 2011, 2012, 2013 and 2014 the Lease Rent fund was over spent due to the lack of assistance and approval from the Department of Local Government of Finance. Each year we would follow the recommendation of the field representative . The lease rent payments are reliant on getting a subsidy from the federal government. If the subsidy is reduced our payment is increased. Finally in 2016 the budget that was submitted, and waiting for the approval, does not list this subsidy. Since this amount is not guaranteed we needed the budget to be increased. Our anticipation is that we will continue to receive the subsidy payments and that the tax rate for the following years will be reduced.

Utility Loans Receivable

NORWEJ which was organized and managed by the DeMotte Town Council, needed necessary revenues in order to meet the Federal and State requirement to provide a public water supply. The town council and NORWEJ board are in agreement that the money will be paid back to the DeMotte Sewer fund when the NORWEJ revenue levels are adequate to pay back the temporary loans.

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2011 – 2014 Town of DeMotte Examination Comments (Cont)

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Acknowledged:

Margaret M. Michelin
Clerk Treasurer

September 4, 2015

CLERK-TREASURER
TOWN OF DEMOTTE
EXIT CONFERENCE

The contents of this report were discussed on August 27, 2015, with Margaret Michelin, Clerk-Treasurer; Heather Tokarz, Office Manager; and Mark Boer, President of the Town Council.

POLICE DEPARTMENT
TOWN OF DEMOTTE

POLICE DEPARTMENT
TOWN OF DEMOTTE
EXAMINATION RESULT AND COMMENT

POLICE DEPARTMENT FEES

Fees collected by the Police Department, such as title checks, accident reports, and fingerprinting, were not supported by a specific statute, resolution, or ordinance. A board resolution authorizing these fees could not be provided.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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Clerk Treasurer

September 4, 2015

POLICE DEPARTMENT
TOWN OF DEMOTTE
EXIT CONFERENCE

The contents of this report were discussed on August 27, 2015, with Thomas Jarrette, Chief of Police, and Margaret Michelin, Clerk-Treasurer.

TOWN COURT
TOWN OF DEMOTTE

TOWN COURT
TOWN OF DEMOTTE
EXAMINATION RESULTS AND COMMENTS

DEPOSITS

Of the receipts tested, 67 percent were deposited later than the next business day. In addition, 25 percent of the receipts tested were not properly marked as to their composition. Therefore, we were unable to determine if these receipts were deposited intact.

Indiana Code 5-13-1-1(a) states:

"All public funds paid into the . . . treasuries of the respective political subdivisions shall be deposited not later than the business day following the receipt of funds on business days of the depository in one (1) or more depositories in the name of the state or political subdivision by the officer having control of the funds."

Indiana Code 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

CONDITION OF RECORDS

Financial records presented for audit were incomplete and not reflective of the activity of the Town Court. The records presented did not provide correct totals of receipts and disbursements or provide correct ending cash balances. Receipts and disbursements were not recorded correctly and receipt totals did not add across or down the columns of the Town Court Cash Book.

Bank reconcilements were not prepared by the Town Court during the examination period. Our attempt to reconcile the bank as of December 31, 2014, indicated cash long of \$349. Of this amount, \$117 was due to deposits not recorded. The remaining \$232 could not be identified.

Similar comments were included in the five prior reports.

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)

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Margaret M. Michelin
Clerk Treasurer

September 4, 2015

TOWN COURT
TOWN OF DEMOTTE
EXIT CONFERENCE

The contents of this report were discussed on August 27, 2015, with Russell D. Bailey, Town Court Judge, and Margaret Michelin, Clerk-Treasurer.

A copy of the contents of this report was sent to Greg Osborn, former Town Court Judge.