

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF CLAYPOOL

KOSCIUSKO COUNTY, INDIANA

January 1, 2012 to December 31, 2014



FILED
02/26/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Miccah Shepherd (Vacant) Connie Morgan	01-01-12 to 10-06-12 10-07-12 to 10-18-12 10-19-12 to 12-31-15
President of the Town Council	Niki L. Miller	01-01-12 to 12-31-15



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE TOWN OF CLAYPOOL, KOSCIUSKO COUNTY, INDIANA

This report is supplemental to our examination report of the Town of Claypool (Town), for the period from January 1, 2012 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/. In addition, a Supplemental Charge Report of the Town, which reports noncompliance resulting in charges, has been issued. This report may also 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

November 17, 2015

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CLERK-TREASURER
TOWN OF CLAYPOOL

CLERK-TREASURER
TOWN OF CLAYPOOL
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS

Financial records presented for examination were incomplete and not reflective of the activity of the Town funds. 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.

Some of the deficiencies include:

1. Receipts and expenditures recorded in the wrong funds
2. Checks and receipts not recorded
3. Interest and bank service charges not recorded
4. Adjustments recorded with no supporting documentation
5. Record balances and transactions that did not agree with the amounts reported in the Annual Financial Report on Gateway.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed.

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)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliations did not balance. Differences were not investigated, identified, or corrected. Adjustments with no supporting documentation were made to resolve the differences.

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."

CASH DISBURSEMENTS

We found instances where cash receipts were not always deposited in the same form as the collections. In 2014, a total of \$536 in cash collections was not deposited. We noted disbursement postings with descriptions such as "2 rolls of postcard stamps/pd cash" and other disbursements without a corresponding check or bank debit. The Town did not have a cash change fund or a petty cash fund. Upon questioning, the Clerk-Treasurer indicated that she sometimes withheld cash from collections to use for cash change and petty cash purchases. Documentation of cash disbursements was not available for examination in an amount sufficient to support the amount of cash collections not deposited.

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

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."

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.

Funds misappropriated, diverted, or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ERRORS ON ACCOUNTS PAYABLE VOUCHERS

A test of accounts payable vouchers identified the following deficiencies:

1. Of the vouchers tested, 94 percent were paid prior to approval by the Town Council.
2. One voucher for mileage paid to the Clerk-Treasurer in the amount of \$257 was not accompanied by any supporting documentation.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (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."

CREDIT CARDS - UNDOCUMENTED EXPENSES

The Town used credit cards for purchases in accordance with the Town's credit card policy. During the period January 1, 2012 to December 31, 2014, the Town made payments totaling \$11,310 for credit card purchases. We examined seven payments totaling \$2,204. Of the payments examined, \$1,257 was not supported by any invoices or sales receipts; \$169 was paid for interest, late payment fees, and over-limit fees; and \$341 was a duplicate payment of a prior balance that had already been paid, resulting in a credit balance.

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

The Town's credit card policy states: "That the payment of credit card charges will be subject to the regular claim process and approval by the Town Council and will be paid only when itemized documents supporting the expenses are provided to the Clerk-Treasurer and attached to the claim."

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

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)

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

APPROPRIATIONS

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

<u>Fund</u>	<u>Years</u>	<u>Excess Amount Expended</u>
General	2012	\$ 2,989
General	2013	43,601
Motor Vehicle Highway	2012	16,989
Motor Vehicle Highway	2013	2,485
Rainy Day	2013	32,598
CEDIT	2013	697
CEDIT	2014	53,813

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."

PAYROLL TAX LIABILITIES

Numerous errors were made related to the Town's payroll tax liabilities. Errors identified are discussed by year below.

2012

The Town under reported gross wages and their tax liability by \$5,630 and \$1,338, respectively, on their fourth quarter 2012 Internal Revenue Service (IRS) Form 941. As a result, the totals of amounts reported on the quarterly IRS Forms 941 did not agree with the amounts the Town correctly reported on IRS Forms W-2 and W-3.

2013

The Town underpaid its state and local payroll tax withholding liabilities for 2013 by \$284.

2014

The Town joined the state's Hoosier Start plan (a section 457 deferred compensation plan) in 2014. Payroll deductions for contributions to the Hoosier Start plan were improperly classified as section 125 deductions causing them to be treated, in error, as pretax for Social Security and Medicare. The Town also contributed \$1,000 each to the Hoosier Start plan of 3 employees. Such payments were also subject to Social Security and Medicare taxes but were not reported to the IRS. As a result of these errors, the Town incorrectly reported Social Security and Medicare wages on their IRS Forms W-2, W-3, and quarterly IRS Forms 941.

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

The Town's IRS Forms 941 for the first and second quarters of 2014 also incorrectly reported taxable wages and federal income tax withheld. As a result, the totals of amounts reported on the quarterly IRS Form 941 do not agree with the amounts reported on IRS Forms W-2 and W-3.

Improper classification of deductions and reporting errors combined caused the Town to underpay their true federal payroll tax liability for 2014 by \$885.

Summary of Tax Liability

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
Under (Over)reported Payroll Tax Liabilities on 941				
Federal	\$ 1,338	-	\$ (211)	\$ 1,127
State	-	284	-	284
Tax due to under reported wages withheld for Hoosier Start Plan subject to Social Security and Tax due to under reported wages from employer contributions to the Hoosier Start Plan Subject to Social Security and Medicare Tax	-	-	637	637
	<u>-</u>	<u>-</u>	<u>459</u>	<u>459</u>
Total	<u>\$ 1,338</u>	<u>\$ 284</u>	<u>\$ 885</u>	<u>\$ 2,507</u>

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)

UTILITY RECEIPTS TAX

The Claypool Water Utility did not pay Utility Receipts Tax to the Indiana Department of Revenue for the tax year 2012. The Utility did not file a Utility Receipts Tax return (URT-1) with the Indiana Department of Revenue for the tax years 2012, 2013, and 2014.

Generally, retail receipts from all utility services consumed within Indiana are subject to the utility receipts tax regardless of the point of generation or transmission across state lines. Receipts from the provision of mobile telecommunication service are subject to utility receipts tax to the extent that the receipts are sourced to Indiana pursuant to Indiana Code 6-8.1-15. However, gross receipts received by a political subdivision for sewage and sewage service are not subject to the tax. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

SALES TAX ERRORS

Several errors related to the collection and remittance of sales tax by the Water Utility were noted as follows:

1. Payments for March, September, and October of 2012 and July of 2013 were remitted late, resulting in penalties totaling \$180 being assessed by the Indiana Department of Revenue (IDOR).
2. The Water Utility remitted double the amount of sales tax due for January 2013, resulting in an overpayment of \$341 that was not claimed for refund.
3. The Utility used the September IDOR Form ST-103 sales tax return, to remit sales tax for August 2012, and did not remit any tax or a IDOR Form ST-103 for September 2012. The IDOR credited the August payment to September and sent a delinquency notice for August 2012 showing an estimated tax liability of \$500. At about the same time, the Utility received a letter stating that their Retail Merchant Certificate would not be renewed until the delinquency was paid. The Utility paid twice, both times paying the estimated amount, an overpayment of approximately \$500 that was not claimed for refund.

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)

All questions concerning the law or procedure for paying and collecting sales tax should be directed to the Indiana Department of Revenue, Sales Tax Division, Indiana Government Center North, Indianapolis, Indiana, 46204, telephone number (317) 233-4015. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PENALTIES, INTEREST, AND OTHER CHARGES

The Town paid penalties, interest, and other charges totaling \$704 assessed by the Internal Revenue Service because the Town did not remit payments on a timely basis. The Town paid penalties, interest, and other charges totaling \$494 assessed by the Indiana Department of Revenue because the Town did not remit payments on a timely basis.

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

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OFFICIAL BOND

The Clerk-Treasurer's Surety Bond was insufficient per the Indiana Code.

Indiana Code 5-4-1-18 states in part:

"(a) . . . the following . . . , town, officers and employees shall file an individual surety bond:
. . .

(2) Town judges and clerk-treasurers. . . .

(c) Except as provided in subsections (h) and (i), the fiscal bodies of the respective units shall fix the amount of the bond of city controllers, city clerk-treasurers, town clerk-treasurers, Barrett Law fund custodians, county treasurers, county sheriffs, circuit court clerks, township trustees, and conservancy district financial clerks as follows:

- (1) The amount must equal thirty thousand dollars (\$30,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2).
- (2) The amount may not be less than thirty thousand dollars (\$30,000) nor more than three hundred thousand dollars (\$300,000) unless the fiscal body approves a greater amount for the officer or employee. County auditors shall file bonds in amounts of not less than thirty thousand dollars (\$30,000), as fixed by the fiscal body of the county. 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)."

CLERK-TREASURER
TOWN OF CLAYPOOL
EXIT CONFERENCE

The contents of this report were discussed on November 17, 2015, with Connie Morgan, Clerk-Treasurer; Niki L. Miller, President of the Town Council; Donald R. Miller, Town Council member; and Tom Burnworth, Town Council member.

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TOWN COUNCIL
TOWN OF CLAYPOOL

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EXAMINATION RESULTS AND COMMENTS

CREDIT CARDS - UNDOCUMENTED EXPENSES

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The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
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TOWN COUNCIL
TOWN OF CLAYPOOL
EXAMINATION RESULTS AND COMMENTS
(Continued)

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)

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)

APPROPRIATIONS

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

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Rainy Day	2013	32,598
CEDIT	2013	697
CEDIT	2014	53,813

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."

TAX INCREMENT FINANCING FUNDS

The Town acquired a new police vehicle in 2014 through a three year lease purchase agreement. The first two annual lease payments of \$10,721 each were paid entirely from tax increment financing funds.

Indiana Code 36-7-14-39(b)(3) states in part:

". . . property tax proceeds . . . shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one

TOWN COUNCIL
TOWN OF CLAYPOOL
EXAMINATION RESULTS AND COMMENTS
(Continued)

(1) or more of the following:

(A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds which are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.

(B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area

(C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under section 27 of this chapter.

(D) Pay the principal of and interest on bonds issued by the unit to pay for local public improvements that are physically located in or physically connected to that allocation area.

(E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.

(F) Make payments on leases payable from allocated tax proceeds in that allocation area under section 25.2 of this chapter.

(G) Reimburse the unit for expenditures made by it for local public improvements (which include buildings, parking facilities, and other items described in section 25.1(a) of this chapter) that are physically located in or physically connected to that allocation area.

(H) Reimburse the unit for rentals paid by it for a building or parking facility that is physically located in or physically connected to that allocation area under any lease entered into under IC 36-1-10.

(I) For property taxes first due and payable before January 1, 2009, pay all or a part of a property tax replacement credit to taxpayers in an allocation area as determined by the redevelopment commission.

(J) Pay expenses incurred by the redevelopment commission for local public improvements that are in the allocation area or serving the allocation area. Public improvements include buildings, parking facilities, and other items described in section 25.1(a) of this chapter.

(K) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located:

(i) in the allocation area; and

(ii) on a parcel of real property that has been classified as industrial property under the rules of the department of local government finance. . . .

(L) Pay the costs of carrying out an eligible efficiency project (as defined in IC 36-9-41-1.5) within the unit that established the redevelopment commission. . . .

(M) Expend money and provide financial assistance as authorized in section 12.2(a)(27) of this chapter.

TOWN COUNCIL
TOWN OF CLAYPOOL
EXAMINATION RESULTS AND COMMENTS
(Continued)

The allocation fund may not be used for operating expenses of the commission."

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

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

TOWN COUNCIL
TOWN OF CLAYPOOL
EXIT CONFERENCE

The contents of this report were discussed on November 17, 2015, with Niki L. Miller, President of the Town Council; Donald R. Miller, Town Council member; and Tom Burnworth, Town Council member.