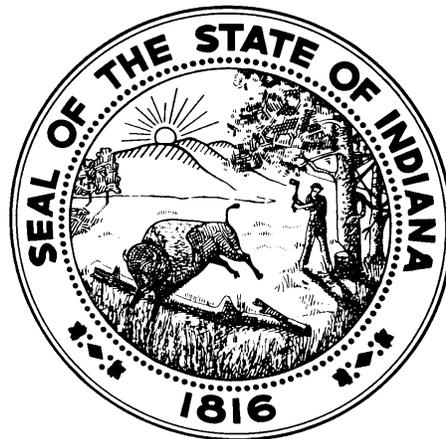


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF
SUGAR CREEK TOWNSHIP
HANCOCK COUNTY, INDIANA
January 1, 2006 to December 31, 2006



FILED
10/09/2008

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Trustee	Charles O. Montgomery Robert E. Boyer	01-01-03 to 12-31-06 01-01-07 to 12-31-10
Chairman of the Township Board	John Gunn Cathy Fitzgerald John Gunn	01-01-06 to 12-31-06 01-01-07 to 12-31-07 01-01-08 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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Web Site: www.in.gov/sboa

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF SUGAR CREEK TOWNSHIP, HANCOCK COUNTY, INDIANA

We have examined the financial information presented herein of Sugar Creek Township (Township), for the period of January 1, 2006 to December 31, 2006. The Township's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the Township for the year ended December 31, 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

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

STATE BOARD OF ACCOUNTS

November 29, 2007

SUGAR CREEK TOWNSHIP, HANCOCK COUNTY
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2006

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
Township	\$ 15,703	\$ 105,154	\$ 88,826	\$ 32,031
Dog	544	390	934	-
Township Assistance	13,431	40,000	36,174	17,257
Recreation	4,612	45,000	28,992	20,620
Firefighting	161,238	2,651,529	2,839,468	(26,701)
Emergency Ambulance - Medical	231,408	170,447	294,638	107,217
Water Rescue	650	-	15	635
Hazardous Materials	4,012	-	2,737	1,275
Fire Prevention	4,853	67,464	64,994	7,323
Community Adult Center	75	-	-	75
Rainy Day	27,900	-	-	27,900
Levy Excess	36,505	53,370	-	89,875
Training	4,602	-	4,602	-
Fire Equipment Debt	(6,135)	281,728	188,530	87,063
Fire Building Debt	154,284	280,941	275,132	160,093
Fire Emergency Loan	50,823	765,769	769,049	47,543
Park Bond	175,430	91,154	210,022	56,562
Park Nonreverting Capital	-	163,332	59,467	103,865
Cumulative Fire	298,732	309,488	324,017	284,203
Capital Projects	713	-	713	-
Schildmeir Cemetery	1,335	22	-	1,357
Fiduciary Fund:				
Payroll Withholdings	(8,241)	408,209	403,377	(3,409)
Totals	<u>\$ 1,172,474</u>	<u>\$ 5,433,997</u>	<u>\$ 5,591,687</u>	<u>\$ 1,014,784</u>

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

SUGAR CREEK TOWNSHIP, HANCOCK COUNTY
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The Township was established under the laws of the State of Indiana. The Township provides the following services: public safety, health and social services, culture and recreation, and general administrative services.

Note 2. Fund Accounting

The Township uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Township in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the Township on or prior to December 31 of the year collected.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the Township 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.

SUGAR CREEK TOWNSHIP, HANCOCK COUNTY
 NOTES TO FINANCIAL INFORMATION
 (Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

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

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

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

Funding Policy and Annual Pension Cost

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

Note 7. Restatements

For the year ended December 31, 2005, certain changes have been made to the financial statements to more appropriately reflect financial activity of the Township. The following schedule presents a summary of restated beginning balances by fund. Prior period adjustments represent correction of errors in reporting in the prior period.

Fund	Balance as Reported December 31, 2005	Prior Period Adjustments	Balance as Restated January 1, 2006
Payroll Withholdings	\$ -	\$ (8,241)	\$ (8,241)

SUGAR CREEK TOWNSHIP, HANCOCK COUNTY
Outstanding Debt 12/31/06

2006 Emergency Loan	\$ 646,841
2001 Fire Loan -Apparatus	\$ 28,830
2005 Fire Loan - Aerial Truck	\$ 578,000
2005 Park Bonds	\$ 1,995,000
2001 Fire Loan - Land	\$ 25,000

SUGAR CREEK TOWNSHIP, HANCOCK COUNTY
EXAMINATION RESULTS AND COMMENTS

CASH NECESSARY TO BALANCE, BANK RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances at December 31, 2006, were not presented for examination. However, a comparison of the records to the bank account indicated a cash necessary to balance of \$486.66 at December 31, 2006. We have requested the former Trustee, Charles O. Montgomery, to remit \$486.66 to Sugar Creek Township for the amount of cash necessary to balance. (See Summary, page 31)

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 Townships, Chapter 13)

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."

PERSONAL EXPENSES

Charles O. Montgomery, former Trustee, received a \$50 gift card purchased from Township funds for a local restaurant group. Additionally, a Christmas dinner was provided to Township officials, employees, and volunteer firefighters at a local restaurant. The total paid by the Township was \$2,260. We have requested the former Trustee, Charles O. Montgomery, to remit \$2,310 to Sugar Creek Township for personal expenses. (See Summary, page 31)

Myra Wilkinson, former Deputy Trustee, purchased two Colts T-shirts totaling \$49.56 and a pair of men's dress leather gloves totaling \$24.86 using the Township's Sam's Club credit card. The former Deputy Trustee was also reimbursed by the Township for the purchase of several personal items including houseware items, men's accessories, and games totaling \$124.90. Additionally, the former Deputy Trustee was reimbursed for meals purchased for a business lunch which included \$3.50 for the purchase of alcohol. We have requested the former Deputy Trustee, Myra Wilkinson, to remit \$202.82 to Sugar Creek Township for personal expenses. (See Summary, page 31)

Joseph R. Fitzgerald, Fire Department Division Chief, was reimbursed for a titanium necklace and bracelet totaling \$138.44. We have requested the Fire Department Division Chief, Joseph R. Fitzgerald, to remit \$138.44 to Sugar Creek Township for personal expenses. (See Summary, page 31)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

Purchases of alcoholic beverages may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

SUGAR CREEK TOWNSHIP, HANCOCK COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

PAYROLL OVERPAYMENTS

Myra Wilkinson, former Deputy Trustee, received payroll payments totaling \$18,000 during 2006. The approved salary for the Deputy Trustee position in 2006 was \$6,000, and the approved salary for the Township Assistance portion of the Deputy Trustee position in 2006 was \$7,000 for a total of \$13,000, creating an overpayment of \$5,000. The salary of the Deputy Trustee was approved by the Township Board through the 2006 budget; no salary resolution was passed for 2006. The former Deputy Trustee is no longer an employee of the Township. Additionally, Robert Rehfus, former Fire Chief, received payroll payments totaling \$57,324.54 during 2006 and \$1,081.60 during 2007 related to 2006. There was a contract in effect between the Township and the former Fire Chief setting a salary of \$56,243 for 2006. The actual payments made created an overpayment of \$2,163.14 to the former Fire Chief. The former Fire Chief is no longer an employee of the Township.

We have requested the former Deputy Trustee, Myra Wilkinson, to remit \$5,000 to Sugar Creek Township for the overpayment of approved salary. (See Summary, page 31)

We have requested the former Fire Chief, Robert Rehfus, to remit \$2,163.14 to Sugar Creek Township for the overpayment of a contract. (See Summary, page 31)

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 Townships, Chapter 17)

DEFICIENCIES ON CREDIT CARD PURCHASES

Two purchases were made using the Township credit card at a local home improvement store during the billing cycle ended November 17, 2006. The total balance due for the billing cycle ended November 17, 2006, of \$684.34 was not paid by the December 12, 2006, due date. As a result, finance charges of \$18.05 and a late fee of \$30 was incurred and paid by the Township during the subsequent billing cycle. The Township used credit cards without an approved credit card policy. We have requested former Trustee, Charles O. Montgomery, to remit \$48.05 for interest and penalties paid. (See Summary, page 31)

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 Townships, Chapter 13)

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:

SUGAR CREEK TOWNSHIP, HANCOCK COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (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.

(Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

PERSONAL PROPERTY USE

Charles O. Montgomery, former Trustee, was reimbursed for equipment purchased for the Township during 2006 including a bluetooth in the amount of \$85.99 and a cell phone, charger, and another bluetooth in the amount of \$141.37. These items were not able to be located at the Township Office or Fire Department. Myra Wilkinson, former Deputy Trustee, purchased a portable DVD player for \$189.22 during 2006 using the Township's Sam's Club credit card. The DVD player was not able to be located at the Township Office or Fire Department.

The items referred to above were not able to be traced to an inventory listing as no such listing was presented for examination. Additionally, no logs were presented for examination detailing the business use of the cell phone purchased by the Township.

We have requested former Trustee, Charles O. Montgomery, to remit \$227.36 to Sugar Creek Township. (See Summary, page 31)

We have requested former Deputy Trustee, Myra Wilkinson, to remit \$189.22 to Sugar Creek Township. (See Summary, page 31)

SUGAR CREEK TOWNSHIP, HANCOCK COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

Assets of the governmental unit may not be used in a manner unrelated to the functions and purposes of the governmental unit.

Whenever an item or other asset owned by the political subdivision is entrusted to an officer or employee, to be used at times outside the normal work time for business purposes, such as a cellular phone, or vehicle, a log should be maintained which clearly shows the business use. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

OFFICIAL BOND COVERAGE

The former Trustee, Charles O. Montgomery, was bonded through Western Surety Company for a period from March 10, 2005 to March 10, 2006, and for a period from March 10, 2006 to March 10, 2007. The bond number was 68704542 and was for the amount of \$15,000. The amount of coverage was insufficient given that the Township had total receipts that exceeded six million dollars in 2005. Based on the amount of receipts during 2005, the bond coverage was required to be \$90,000. Additionally, the bond was not filed with the County Recorder as required.

The trustee shall file an individual official surety bond. The township board shall fix the amount of the bond as follows:

- (a) The amount should equal fifteen thousand dollars (\$15,000) 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.
- (b) The amount may not be less than fifteen thousand dollars (\$15,000) nor more than three hundred thousand dollars (\$300,000). The township board may, by resolution, authorize blanket bond coverage for the aforementioned.

(Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

Every officer and employee who handles money in the performance of duties as prescribed by IC 36-10-3-16 shall execute an official bond for the term of office or employment before entering upon the duties of the office or employment. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 10)

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 . . ."

ADDITIONAL AUDIT COSTS

Additional audit costs were incurred during the current examination of the cash necessary to balance, personal expenses, ride-out-pay payments, payroll overpayments, deficiencies on credit card purchases, and personal property use. Additional audit costs totaled \$8,279.46.

Audit costs incurred because of theft or shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

SUGAR CREEK TOWNSHIP, HANCOCK COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

ADDITIONAL COMPENSATION – RIDE-OUT-PAY PAYMENTS

Firefighters who assumed a position above their current position for a day due to the absence of a superior officer received additional compensation for that day which is referred to as ride-out-pay. The Fire Department had an internal policy concerning ride-out-pay which was not covered under a contract or salary resolution. Under the contract for 2007, those firefighters holding officer positions will not receive ride-out-pay for assuming the duties of the fire chief as it is considered a required part of their position. Three firefighters that received additional compensation for holding officer positions received ride-out-pay for performing duties of the fire chief in his absences during 2006.

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 Townships, Chapter 17)

FIREFIGHTER ADDITIONAL COMPENSATION

Each firefighter received \$500 of additional compensation, and the Fire Department Clerk received \$250 of additional compensation from the Township on December 20, 2006. The payments were not included in the total wages and salaries reported on the individuals' Form W-2s. Additionally, the salary schedule presented for examination for the Fire Department did not include these amounts. As a result, the payments were in excess of the approved salaries and wages of the firefighters and the clerk.

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 Townships, Chapter 17)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

PAYMENTS IN EXCESS OF APPROVED CLOTHING ALLOWANCE

Each firefighter was allocated a \$500 clothing allowance for 2006. The benefit was given to the firefighters in one of two ways. Firefighters either purchased the clothing or equipment personally and were reimbursed by the Township, or the Township purchased the clothing or equipment directly as directed by the firemen. A log was kept on each fireman's purchases and reimbursements during the year. Several firefighters were noted to have exceeded the allowance during 2006. The individual firefighters names were provided to Township Officials, Rob Allen, \$11.34; Doug Curry, \$280.19; Dustin Dishman, \$5.23; Thomas Evans, \$32.09; Joseph R. Fitzgerald, \$66.17; Brandon Kleine, \$136.72; Joe Marshall, \$21.68; and Brett Ramer, \$13.87.

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 Townships, Chapter 17)

SUGAR CREEK TOWNSHIP, HANCOCK COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

APPROPRIATIONS

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

	<u>Year</u>	<u>Excess Amount Expended</u>
Firefighting	2006	\$ 27,525
Park Bond	2006	59,467

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."

CAPITAL ASSET RECORDS

Information presented for examination did not indicate an inventory or record of capital assets using Form 369. A similar comment appeared in prior Report B27461.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable Capital Assets Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

RECEIPT ISSUANCE

Receipts were not issued during 2006 for money received from various sources including ambulance billings and donations. A similar comment appeared in prior Report B27461.

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 Townships, Chapter 13)

LIST OF EMPLOYEES NOT FILED WITH COUNTY TREASURER

Officials or employees of the Township had money due from the Township, but a list of such employees was not certified to the County Treasurer. A similar comment appeared in prior Report B27461.

SUGAR CREEK TOWNSHIP, HANCOCK COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

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 names and addresses of each person who has money due the person from the political subdivision to the treasurer of each county in which the political subdivision is located."

FIRE DEPARTMENT RECEIPTS

Cash received by the Fire Department for the sale of address signs was accounted for in the Petty Cash Fund. Receipts were not issued for the cash received, and the cash received was not deposited, but was used for subsequent petty cash disbursements. Documentation was presented for examination to substantiate the disbursements.

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."

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 Townships, Chapter 13)

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

ADVANCE PAYMENTS

The former Trustee, Charles O. Montgomery, received a monthly payroll distribution on the first day of each month for that month's service.

Indiana Code 5-7-3-1(a) states: "Public officers may not draw or receive their salaries in advance."

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

PENALTIES AND INTEREST UNDERPAYMENTS

The Township underpaid withholdings due to the Internal Revenue Service for three quarters in 2006 in amounts ranging from \$82.58 to \$547.02.

Penalties and interest totaling \$344.86 were paid to the Indiana Department of Revenue during the examination period. Additionally, penalties of \$650.12 were paid to the Internal Revenue Service subsequent to the examination period for penalties incurred due to late payments made during the examination period.

SUGAR CREEK TOWNSHIP, HANCOCK COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

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 Townships, Chapter 13)

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 Townships, Chapter 13)

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 Townships, Chapter 13)

INTERNAL CONTROLS – TIME CARDS

The time cards used for the Fire Department did not include the signature of either the employee or the supervisor.

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.

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 Townships, Chapter 13)

OVERDRAWN CASH BALANCES

The cash balances of the Firefighting and Payroll Withholdings Funds were overdrawn at December 31, 2006. Additionally, the General Fund was overdrawn during five months of 2006, and the Firefighting Fund was overdrawn during six months of 2006.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

SUGAR CREEK TOWNSHIP, HANCOCK COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

ANNUAL REPORT

The annual report for 2006 was not filed with the State Board of Accounts or published.

The Township Trustee's Report of Receipts and Disbursements for the Calendar Year is an abstract report of receipts and disbursements for the calendar year. The annual report shall be prepared, verified, and filed with the State Board of Accounts within 30 days after the close of each fiscal year. The report must be published, within four weeks after the third Tuesday after the first Monday in January, one time in accordance with IC 5-3-1. The form has been revised each year for the last several years. The form is provided by the State Board of Accounts along with applicable instructions. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 2)

TOWNSHIP ASSISTANCE

Several errors were noted in the processing of Township Assistance. Several applications examined for assistance provided were not completed properly. Additionally, no verification of income was included with several of the applications examined. No renewals of application were noted for several instances of continuing assistance provided. The items noted did not comply with the guidelines adopted by the Township on March 19, 2002. No evidence was presented for examination indicating that the guidelines were updated during 2006.

Indiana Code 12-20-5.5-1 states:

"(a) The township trustee shall process all applications for township assistance according to uniform written standards and without consideration of the race, creed, nationality, or gender of the applicant or any member of the applicant's household.

(b) The township's standards for the issuance of township assistance and the processing of applications must be:

1. governed by the requirements of this article;
2. proposed by the township trustee, adopted by the township board, and filed with the board of county commissioners;
3. reviewed and updated annually to reflect changes in the cost of basic necessities in the township and changes in the law;
4. published in a single written document, including addenda attached to the document; and
5. posted in a place prominently visible to the public in all offices of the township trustee where township assistance applications are taken or processed."

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 Townships, Chapter 13)

SUGAR CREEK TOWNSHIP, HANCOCK COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

PAYMENT FOR UNUSED LEAVE TIME

Two firefighters received payment for unused leave time in December 2006. The Fire Department General Order 2.9 Leave Policies revised January 24, 2006, did not have a provision for the payment of unused leave time. The policy has not been approved by the Township Board. The issue has been corrected subsequent to the examination period with the passage of the contract between the Firefighters and the Township in 2007.

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 Townships, Chapter 13)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

SALES TAX

Sales tax was paid on 10% of the purchases examined in amounts ranging from \$2.19 to \$38.74.

Governmental funds generally are exempt from the payment of sales tax on qualifying purchases. Respective tax agencies should always be contacted concerning tax exemptions and payments. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

OPTICAL IMAGES OF CHECKS

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned an optical image of only the front side of the checks.

Indiana Code 5-15-6-3(a) concerning optical imaging of checks states in part:

". . . 'original records' includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

Furthermore, Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference."

SUGAR CREEK TOWNSHIP, HANCOCK COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

RECORD OF HOURS WORKED

An employee of the Township was paid for performing duties for both the Fire Department and Park Board during 2006. A record of hours worked for each was not presented for examination. Additionally, the amount paid for the Park Board duties was not processed through the payroll system and was not included in the employee's 2006 Form W-2.

Indiana Code 5-11-9-4(b) states in part: ". . . records be maintained showing which hours were worked each day by officers and employees . . . employed . . . in more than one (1) position by the same public agency . . ."

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 Townships, Chapter 13)

SUGAR CREEK TOWNSHIP, HANCOCK COUNTY
EXIT CONFERENCE

The contents of this report were discussed on November 28, 2007, with Charles O. Montgomery, former Trustee. The official response has been made a part of this report and may be found on pages 20 and 21.

The contents of this report were discussed on November 28, 2007, with Robert Rehus, former Fire Chief.

The contents of this report were discussed on May 21, 2008, with Greg Hunt, former Battalion Chief.

The contents of this report were discussed on May 21, 2008, with Joseph R. Fitzgerald, Division Chief.

The contents of this report were discussed on May 21, 2008, with Robert E. Boyer, Trustee. The official response has been made a part of this report and may be found on pages 27 through 30.

Attempts were made to contact Myra Wilkinson, former Deputy Trustee regarding discussion of the contents of this report. She did not attend the scheduled conference.

C. O. Montgomery
4258 W. Bittner Ln.
New Palestine, In. 46163.

Paul D. Joyce, CPA
Deputy State Examiner
State Board of Accounts
Indianapolis, In. 46204-4711

September 10, 2008

Mr. Joyce

This letter is in response to your letter dated August 29, 2008.

By way of introduction, please allow me to say that I served the citizens of Sugar Creek Township, as their trustee for a period of time beginning in 1997 thru DECEMBER 31, 2006.

During that time I and my administration attended many SBA audits.

At that time, I was advised by various attorneys, accountants, and township advisory board members.

And, during that period of time, NEVER was there a hint of fraud, misgivings, nor a question about book keeping procedures. The only exceptions being very minute suggestions from the SBA.

Now, I am no longer in office. (My term expired December 31, 2006.) I DO not, and DID NOT have access to the "records" after 12-31-06.

I do not have that cadre of attorneys, accountants and advisory board members at present. NOR, did I have them at the time SBA "ran" the audit in question.

Therefore, I wish to rescind my original offer dated December 1, 2007. FOR THE FOLLOWING REASONS.

I was not aware of ALL the facts. The facts are;

Fact:

- Your audit covered 7-1-2005 to 6-30-2007.
- I DID not have access to the records, accounting, and the office of Trustee after December 31, 2006.

- The \$ 50.00 gift card was NOT purchased with Sugar Creek Township funds. The gift card was purchased by the “career” firefighters of SCTwp.
- In reference to the expenditures for the Christmas Party, it might “appear” that the entire bill was paid for with SCTwp funds. It WAS not. We charged \$ 20.00 a ticket. And, over ½, (of the total) bill was supplied with NON-Township funds. Additionally, this was a tradition, long standing for many years. Many governmental agencies have parties that I will assure you are paid with, and by taxpayers. For example the Christmas party held by current trustee Mr. Robert Boyer, was paid for with taxpayer’s money. The money was simply moved from the “general’ account to the “volunteer firefighting fund”. Another case in point, many schools likewise have “parties” paid for by the taxpayers to “reward” their employees.
- There was a “cash bar”. And, I will assure you that the SCTwp Trustee did NOT pay for alcoholic beverages. Neither for myself, (I don’t consume alcoholic beverages), nor for other attendees.
- In regard to my deputy purchasing various gifts. These were “door prizes” for the brave men & women in the fire service. Another long standing tradition. And, one that I will assure you is carried out by MANY governmental agencies. Also, we solicited “door prizes” from the community.
- Regarding the reconciliation of bank account on December 31, 2006. Neither myself, my accountants, nor my bookkeeper had access to these records after December 31, 2006 There is NO way we could have” balanced” or not “balanced” the books if we were NO longer privy to this information. (Bank statements were sent out in January 2007).
- In regards to the “personal property”. I maintain that the items in question were left on my desk when I “shut the lights off” for the last time December 31, 2006.

In summation, I would like to paraphrase my letter of December 31, 2007. “I think it is ludicrous for the current trustee, Mr. Robert Boyer to conduct a “witch hunt” for my last year in office”. And, in talking with Mr. Boyer, he assures me that “he told the SBA that the way they handled the audit was not correct.”

I will await your disposition on these matters.

I am now retired from “public life.” And, I also retired after twenty six years as an Indiana Public School educator. I have neither the funds to hire attorneys, CPA’s, nor the funds to repay the state the “alleged” \$3,072.07.

Sincerely


C. O. Montgomery

cc. Brian Bosma, Kroger Grades & Regas, D.J. Davis, Brand,Davis,Elsa,&
Morelock
Eric Reedy, Reedy & Peters

**ROBERT E. BOYER
SUGAR CREEK TOWNSHIP
HANCOCK COUNTY
TRUSTEE**

P.O. BOX 417
NEW PALESTINE, IN 46163
PHONE: 317.861.6148
FAX: 317.861.0415

May 22, 2008

OFFICIAL RESPONSE

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

Gentlemen;

This is the official response to your draft of the examination results and comments regarding the audit of the year ending December 31, 2006 by your office. The response will address each individual item.

PERSONAL EXPENSES:

We disagree with the position that paying for dinner for fire department and township personnel are personal expenses of the Township Trustee. A smoothly functioning fire department requires a great deal of interaction and camaraderie amongst the member of the organization, both career and volunteer, the leadership and the political leadership of the township. The lives of each member of the organization and the citizens of the township are dependent on the abilities, training and cohesiveness of the organization. The fire department members, both career and volunteer, regularly put their lives on the line for each other and the citizens of the township. We view the annual Christmas dinner as a highly necessary expense of building and furthering the interaction, teamwork and camaraderie necessary to provide fire and emergency services to the citizens of Sugar Creek Township. Further we view the event as a unique opportunity for all of the personnel, career, volunteer administrative staff and township officials to get together outside of the fire department to interact and share important time together. In order to get all township personnel together in any other setting would require paying overtime to over 2/3 of the personnel involved which would be a much larger amount than the cost of an annual dinner. We believe the State Board of Accounts position that these expenses are the personal expenses of the township trustee is both incorrect and unrealistic. Additionally we note that you have not cited any state statute or SBOA rule to support your position that the expense is not an allowable expense of the township. We request the State Board of Accounts reverse its' finding on this issue.

DEFICIENCIES ON CREDIT CARD PURCHASES:

The Township has subsequent to the audit adopted a resolution on credit card usage.

OFFICIAL BOND COVERAGE:

The current trustee has been bonded from his inception in office in the required amount and the bond has been properly filed with the office of the county recorder.

AUDIT COSTS:

The additional audit costs were the result of the actions of the prior trustee and should be so charged and not have to be paid by Sugar Creek Township.

FIREFIGHTER ADDITIONAL COMPENSATION:

On December 20, 2006 prior Township Trustee C. O. Montgomery chose to pay a "bonus" to each of the full time firefighters and the fire department clerk. The payments totaled \$15,250.00. The State Board of Accounts has determined that these amounts should be recovered from the persons receiving the funds. We agree that the amounts should be recovered; we disagree that the amounts should be recovered from the persons receiving the funds. In making the decision to pay these amounts as a "bonus", Mr. Montgomery breached his fiduciary responsibility to the citizens of Sugar Creek Township. Whether Mr. Montgomery chose to make these payments to show that he was a "good guy" or to reward people for their support in the primary election or for some other reason the decision to make these payments were his and his alone. Accordingly, the payments were made for his own personal reasons. There is no difference between that and him simply putting \$15,250.00 of the townships funds into his own pocket. Mr. Montgomery chose to make this unauthorized disbursement of township funds for his own personal benefit. The recovery of these funds should be from Mr. Montgomery and not from the persons receiving the funds. Additionally some of the persons that received the funds have left the employment of Sugar Creek Township and no practical means exists for recovering those funds. The recovery only from those still employed by Sugar Creek Township is absolutely unfair to those employees. We also note that this expenditure of \$15,500.00 is a substantial portion of the \$27,525.00 that was spent in excess of the firefighting budget for 2006.

It should not be the responsibility of Sugar Creek Township or the current trustee to collect these amounts. It should be the sole responsibility of the former Sugar Creek Township Trustee.

Additionally as the current trustee I request clarification my responsibility for the collection of this amount and of the statement in the audit report that states "Governmental units have a responsibility to collect amounts owed to the government unit pursuant to procedures authorized by statute."

CLOTHING ALLOWANCE:

The established procedure for clothing allowance that has been in effect is that when a clothing allowance amount is overspent the next years clothing allowance is reduced by the amount overspent (accordingly the amount of the overspending is in effect collected in the subsequent year and no collection is necessary) Changes which will go into effect in 2008 will tighten up the clothing allowance rules to avoid overspending in the future.

CAPITAL ASSET RECORDS:

Upon taking office on January 1, 2008 we found several pages of blank forms titled Capital Asset Records. It is the intention of this office to take a complete inventory in 2008 and prepare a record of Capital Assets.

RECEIPT ISSUANCE:

Township procedures will be changed in 2008 to issue receipts for any cash received and issue receipts for donations. We believe that issuing receipts for normal business transactions where payment is made by check (particularly ambulance billing) is an exercise in futility and an ancient practice that has no place in today's modern business climate, and simply requires the township to expend time and resources for no purpose. The current practices in the office of the Sugar Creek Township Trustee creates a more than adequate audit trail for normal business transactions that makes the generation of a receipt both unnecessary and unnecessarily burdensome.

LIST OF EMPLOYEES FILED WITH THE COUNTY TREASURER:

A list of employees will be filed with the County Treasurer before the end of 2007 and procedures will be put in place to meet the semiannual reporting requirement in 2008.

FIRE DEPARTMENT RECEIPTS:

A procedure will be put in place in 2008 to better track cash receipts by the fire department.

ADVANCE PAYMENTS:

The procedure of paying in advance was stopped upon the change in the office of the trustee effective January 1, 2007.

UNDERPAYMENTS, PENALTIES AND INTEREST:

Procedures put in place in 2007 should eliminate underpayments, penalties and interest except those which may result from software problems.

INTERNAL CONTROLS – TIME CARDS:

Currently discussions are taking place to better the procedures for reporting time including requiring time cards to be signed by the employee and the employee's supervisor.

ANNUAL REPORT:

The annual report was the responsibility of the outgoing township trustee. The outgoing trustee was contacted by the township attorney and stated that he was not going to prepare the report.

The report for 2007 will be filed as required.

TOWNSHIP ASSISTANCE:

Steps have been taken in 2007 to comply with all procedures for township assistance.

OPTICAL IMAGES OF CHECKS:

The banking institution which serves as a depository of township funds retains an optical image of both the front and back of all checks which are available for audit purposes. Additionally, the online banking feature which the township currently uses allows the trustee to view the front and back of all checks for internal control purposes. I believe that the bank retention of the electronic images of the checks meets the intent of the law.

RECORD OF HOURS WORKED:

The situation noted in the audit report for 2006 has been corrected and does not occur in 2007.

REQUEST FOR A HEARING:

I request a hearing with the official at the State Board of Accounts with the ultimate authority over the issuance of this report in order to discuss the issue of firefighter overpayments prior to the issuance of this report.

If you have any questions feel free to give me a call at the number shown above.

Sincerely,



Robert E. Boyer
Sugar Creek Township Trustee

SUGAR CREEK TOWNSHIP, HANCOCK COUNTY
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Charles O. Montgomery, former Trustee:			
Cash Necessary to Balance,	\$ 486.66	\$	\$
Bank Reconciliations, page 8			
Personal Expenses, page 8	2,310.00		
Deficiencies on Credit Card Purchases,	48.05		
pages 9 and 10			
Personal Property Use, pages 10 and 11	227.36		
Paid by Charles O. Montgomery,			
December 27, 2007, Receipt 4282		50.00	3,022.07
	<u>3,072.07</u>	<u>50.00</u>	<u>3,022.07</u>
Totals for Charles O. Montgomery, former Trustee			
Myra Wilkinson, former Deputy Trustee:			
Personal Expenses, page 8	202.82	-	202.82
Payroll Overpayments, page 9	5,000.00	-	5,000.00
Personal Property Use, pages 10 and 11	189.22	-	189.22
	<u>5,392.04</u>	<u>-</u>	<u>5,392.04</u>
Totals for Myra Wilkinson, former Deputy Trustee			
Robert Rehfus, former Fire Chief:			
Payroll Overpayments, page 9	2,163.14		
Paid by Robert Rehfus,			
December 4, 2007, Check 9092		2,163.14	-
	<u>2,163.14</u>	<u>2,163.14</u>	<u>-</u>
Totals for Robert Rehfus, former Fire Chief			
Joseph R. Fitzgerald, Division Chief:			
Personal Expenses, page 8	138.44	-	138.44
	<u>138.44</u>	<u>-</u>	<u>138.44</u>
Totals	<u>\$ 10,765.69</u>	<u>\$ 2,213.14</u>	<u>\$ 8,552.55</u>

AFFIDAVIT

STATE OF INDIANA)
)
Manon COUNTY)

We, Jennifer Carmack and Eric Smith, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the Sugar Creek Township, Hancock County, Indiana, for the period from January 1, 2006 to December 31, 2006, is true and correct to the best of our knowledge and belief.

J. Carmack
E. Smith
Field Examiners

Subscribed and sworn to before me this 3 day of September, 2008.

PATRICIA BONNER
Notary Public
SEAL
State of Indiana
My Commission Expires October 6, 2014

Patricia Bonner
Notary Public

My Commission Expires: 10-15-14
County of Residence: Hamilton