

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

AUDIT REPORT

OF

BOARD OF COUNTY COMMISSIONERS

HENRY COUNTY, INDIANA

January 1, 2005 to December 31, 2005



FILED
11/21/2006

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
County Officials	2
Transmittal Letter	3
Audit Results and Comments:	
Accounting Records.....	4
Guaranteed Energy Savings Contract	5-7
Food and Beverage Tax Fund	7-8
Exit Conference.....	9
Official Response	10-11

COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Linda S. Ratcliff	01-01-03 to 12-31-06
President of the County Council	Robert L. Veach	01-01-05 to 12-31-06
President of the Board of County Commissioners	Phillip J. Estridge Don L. Shaw Larry D. Hale	01-01-05 to 01-26-05 01-27-05 to 12-31-05 01-01-06 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

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

TO: THE OFFICIALS OF HENRY COUNTY

We have audited the records of the Board of County Commissioners for the period from January 1, 2005 to December 31, 2005, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments. The financial transactions of this office are reflected in the Annual Report of Henry County for the year 2005.

STATE BOARD OF ACCOUNTS

September 13, 2006

BOARD OF COUNTY COMMISSIONERS
HENRY COUNTY
AUDIT RESULTS AND COMMENTS

ACCOUNTING RECORDS

The County has purchased an accounting package to help the officials in the accounting for the processing of property tax collections and settlements. We could not verify through the use of audit procedures that the information provided by the accounting system is accurate. Several specific problems that were noted are:

1. The information presented in the tax duplicate and the tax duplicate summary sheets are incomplete or are combined in such a manner that some information can not be traced to the apportionment sheets.
2. Tax duplicate numbers are not assigned in numerical order.
3. There is no net total assessed valuation presented on the tax duplicate's summary page.
4. Charges such as new penalties on old delinquent taxes are not presented individually.
5. Credits such as amounts certified to the clerk are not presented individually.
6. The tax duplicates that have collections posted to them do not have the same information as the original tax duplicates. For example, if a taxing unit had a late processing fee of \$75 in the original duplicate and if \$50 had been collected during the year, the tax duplicate prepared after the collection would only show the \$25 still outstanding as a late processing fee for the year.
7. Because some adjustments are not identified on the summary pages, it appears as though the summary pages are not correctly footed, for example:

The Town of Springport, Real Property Summary, page 2611 shows:

Total	\$56,757.41
Paid	50,873.70
Curr Yr Due	5,968.71

The Town of Springport, Real Property Summary, page 2611 our calculation results would show:

Total	\$56,757.41
Paid	50,873.70
Curr Yr Due	5,883.71

This is an unidentified adjustment of \$85 that makes the tax duplicate summary page appear to be incorrectly footed.

At all times, the manual and computerized records, subsidiary ledgers, and control ledger should agree. (Accounting and Uniform Compliance Guidelines Manual for Counties)

BOARD OF COUNTY COMMISSIONERS
HENRY COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

GUARANTEED ENERGY SAVINGS CONTRACTS

Henry County entered into a guaranteed energy savings contract with Landis and Gyr Powers, Inc., (now Siemens Building Technologies, Inc.) on August 19, 1996. The total amount of the contract was \$633,369. The total amount of guaranteed energy savings was \$94,310. The total amount of guaranteed stipulated or agreed upon savings was \$539,059. The contract provides operational cost savings projections and included capital expenditures as "agreed upon Operational Cost Savings." The "agreed upon" savings were of \$628,240 were "deemed realized upon execution" of the contract. No information was presented for audit to document guaranteed operational savings.

The contract states in part: "It is impossible to accurately measure the actual operational savings after improvements are implemented so the operational savings identified in the guaranteed (sic) shall be added to the actual energy savings to arrive at a total guaranteed savings amount. By signing this document the Owner (Henry County) is agreeing that these annual operational savings will occur."

Stipulated Savings is further described in the contract as "Operational Savings - Includes any labor and material costs associated with the repair of unplanned maintenance of the equipment being replaced in the scope of work." and "Capital Offset - Includes cost avoidance from future planned equipment upgrades or replacement with the cost amortized over the ten years of the agreement." No information was presented for audit to document any "stipulated savings" that resulted in actual energy or operating cost savings from energy conservation measures.

The project includes per the contract, a lighting retrofit, HVAC upgrade, replacement windows, and a boiler replacement.

The Public Works Law, Indiana Code 36-1-12-1(e), states in part: "As an alternative to this chapter, the governing body . . . may . . . enter into a guaranteed energy savings contract as permitted under IC 36-1-12.5."

Effective March 21, 2002, Indiana Code 36-1-12.5-1 states in part: "As used in this chapter, 'energy conservation measure' means a . . . facility alteration or an alteration of a structure (as defined in IC 36-1-10-2) designed to reduce energy consumption costs or other operating costs . . . including future: (A) labor costs; (B) costs for contracted services; and (C) related capital expenditures."

Indiana Code 36-1-12.5-5(a) concerning energy savings contracts states in part: "The governing body may enter into . . . a guaranteed energy savings contract with a qualified provider to reduce the . . . political subdivision's energy consumption costs or operating costs if, after review of the report described in section 6 of this chapter, the governing body finds: (1) that the amount the governing body would spend on the energy conservation measures under the contract and that are recommended in the report is not likely to exceed the amount to be saved in energy consumption costs and other operating costs over ten (10) years from the date of installation if the recommendations in the report were followed; and (2) in the case of a guaranteed energy savings contract, the qualified provider provides a written guarantee as described in subsection (d)(2)."

Indiana Code 36-1-12.5-5(d) states in part: "An agreement to participate in . . . guaranteed energy savings contract under this section must provide that: . . . (2) in the case of the guaranteed energy savings contract: (A) the savings in energy and operating costs due to the energy conservation measures are guaranteed to cover the costs of the payments for the measures; and (B) the qualified provider will reimburse the school corporation or political subdivision for the difference between the guaranteed savings and the actual savings . . ."

BOARD OF COUNTY COMMISSIONERS
HENRY COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Effective March 21, 2002, Indiana Code 36-1-12.5-0.5 states: "As used in this chapter, 'actual savings' includes stipulated savings."

Indiana Code 36-1-12.5-0.7 states: "As used in this chapter, 'causally connected work' means work that is required to properly implement an energy conservation measure."

Indiana Code 36-1-12.5-3.7 states in part: "As used in this chapter, 'stipulated savings' are assumed savings that are documented by industry engineering standards."

Indiana Code 36-1-12.5-11 states in part:

"(a) A guaranteed energy savings contract that includes stipulated savings must specify the methodology used to calculate the savings using industry engineering standards.

(b) Stipulated savings may be used for energy conservation measures including . . . (9) Any work that is causally connected to the energy conservation measures listed in subdivisions (1) through (8).

(c) The guaranteed energy savings contract shall: (1) describe stipulated savings for: (A) energy conservation measures; and (B) work causally connected to the energy conservation measures; and (2) document assumptions by industry engineering standards."

Henry County Officials conveyed that the items shown as "agreed upon" or "stipulated savings" have been predetermined. Furthermore, the Henry County Officials do not have available for audit and conveyed they do not plan in the future to have any additional information to document actual operating or energy savings. Accordingly, with due regards for the remaining contract time for which information may be presented to document actual operating and energy savings (effective March 21, 2002, "stipulated savings" documented by "industry engineering standards"), the County should request reimbursement from Siemens Building Technologies, Inc., for costs which did not result in an actual reduction of energy consumption costs or other operating costs (or effective March 21, 2002, stipulated savings which were not supported by "industry engineering standards") at the end of the contract term in accordance with Indiana Code 36-1-12.5-5(d)(2)(B).

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 Counties of Indiana)

The project included "a Security System," a fire alarm, "new high performance coaxial speakers," "state intercom system," attic storage space added, and exterior sandblasting which totaled 20% of the total project.

Effective March 21, 2002, Indiana Code 36-1-12.5-12 states in part (a): "An improvement that is not causally connected to an energy conservation measure may be included in a guaranteed energy savings contract if: (1) the total value of the improvement does not exceed fifteen percent (15%) of the total value of the guaranteed energy savings contract . . ."

Savings summary reports relative to guaranteed energy savings contracts that are required to be filed with the Indiana Department of Commerce, Energy Policy Division, were filed late for the years 2002 and 2003.

BOARD OF COUNTY COMMISSIONERS
HENRY COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Information forwarded to the Indiana Department of Commerce, Energy Policy Division by the County did not include a copy of the executed guaranteed energy savings contract, the energy consumption costs before the date of execution of the guaranteed energy savings contract, (the documentation using industry engineering standards for stipulated savings; and related capital expenditures.

Effective March 21, 2002, Indiana Code 36-1-12.5-10 states: "The governing body shall: (1) provide to the department of commerce not more than sixty (60) days after the date of execution of the guaranteed energy savings contract: (A) a copy of the executed guaranteed energy savings contract; (B) the energy consumption costs before the date of execution of the guaranteed energy savings contract; and (C) the documentation using industry engineering standards for: (i) stipulated savings; and (ii) related capital expenditures; and (2) annually report to the department of commerce, in accordance with procedures established by the department of commerce, the savings resulting in the previous year from the guaranteed energy savings contract or utility energy efficiency program."

FOOD AND BEVERAGE TAX FUND

The following problems were noted with the accounting procedures of the Food and Beverage Tax Fund:

Condition Of Records

We examined accounting records from three separate sources in order to obtain a complete accounting of the cash transactions and cash and investment balances of the Food and Beverage Tax Fund. The County Auditor's ledger only presented the receipts of the monthly Food and Beverage Tax collections from the State of Indiana and the transfer of these tax funds to First Merchants Bank (Trustee). The Trustee's records were not sufficiently detailed to establish the amount of payment on the various contracts.

The County Auditor must maintain a record of all transactions in the Food and Beverage Tax Fund as required by the following statutes:

Indiana Code 6-9-25-8 states:

- "(a) If a tax is imposed under section 3 of this chapter, the county treasurer shall establish a food and beverage tax receipts fund.
- (b) The county treasurer shall deposit in this fund all amounts received under this chapter.
- (c) Any money earned from the investment of money in the fund becomes a part of the fund."

Indiana Code 6-9-25-9.5(b) states in part: "Money in the fund established under section 8 of this chapter shall be used by the county for the financing, construction, renovation, improvement, equipping, or maintaining of the following capital improvements . . ."

BOARD OF COUNTY COMMISSIONERS
HENRY COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Prescribed Forms

The following prescribed or approved forms were not always in use in the accounting for the transactions and balances of the Food and Beverage Fund:

- 352 General Receipt
- 354 General Claim
- 356 General Check
- 358 Ledger of Receipts, Disbursements and Balance
- 359 Ledger of Appropriations, Encumbrances, etc
- 360 Monthly Financial, Depository Statement and Reconciliation

If all transactions of the fund were made through the County Auditor's recordkeeping system, then all of the necessary forms would be automatically in use and this comment would not apply.

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 County Auditors of Indiana, Chapter 14)

Internal Controls - Contracts

Controls for payments of goods or services performed under the contracts for the 10 current projects should be monitored to ensure that payments are not made in excess of the contracts. At this time the Food and Beverage Fund Projects are only monitored by project total and payments are not accounted for by each specific contract.

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 County Auditors of Indiana, Chapter 14)

BOARD OF COUNTY COMMISSIONERS
HENRY COUNTY
EXIT CONFERENCE

The contents of this report were discussed on September 13, 2006, with Linda S. Ratcliff, Auditor; Larry D. Hale, President of the Board of County Commissioners; Robert L. Veach, President of the County Council; and Philip J. Estridge, member of the Board of County Commissioners. The official response has been made a part of this report and may be found on pages 10 and 11.



**HENRY COUNTY
COMMISSIONERS**
HENRY COUNTY COURTHOUSE
101 SOUTH MAIN STREET
NEW CASTLE, INDIANA 47362
PHONE 765-529-4705 • FAX (765) 521-7037

Larry D. Hale
President
lhale@henryco.net
Philip J. Estridge
Vice President
pestridge@henryco.net
Donald L. Shaw
dshaw@henryco.net

September 20, 2006

OFFICIAL RESPONSE

State Board of Accounts
302 West Washington Street, Room E 418
Indianapolis, Indiana 46204-2765

Re: Food and Beverage Tax Fund

I am responding to the Board of Accounts findings with respect to the Food and Beverage Tax Fund.

When the Food and Beverage Tax was instituted in Henry County in 1987, the dollars collected were earmarked to retire the bond issue for the construction of the Indiana Basketball Hall of Fame in New Castle. In less than one-half the projected payoff period, the Hall of Fame debt was retired.

In 1994, it was determined to seek continuation of the Food and Beverage Tax and use the proceeds to enhance community projects. With involvement from all taxing entities in Henry County additional projects were proposed and selected.

Again in 2001 a bond ordinance was signed extending the Food and Beverage Tax and the ordinance according to Section (The Bonds) article (U), authorized the Henry County Commissioners to contract with a qualified financial institution or institutions to serve as Trustee, Registrar and Paying Agent for the Bonds. See excerpt from the ordinance below:

Section the Bonds (U)

The Commissioners are hereby authorized to contract with a qualified financial institution or institutions to serve as Trustee, Registrar and Paying Agent for the Bonds. The registrar is hereby charged with the responsibility of authenticating the bonds. The Commissioners are hereby authorized to enter into such agreements or understandings with the Trustee, Registrar and Paying Agents as would enable the institution or institutions to perform the services required of a trustee, registrar and paying agent. The County is further authorized to pay from tax Revenues such fees as the Trustee, Registrar and Paying Agent may charge for the services provided as Trustee, Registrar and Paying Agent and such fees may be paid from the bond and Interest Account as

Debt Service in addition to paying the principal of and interest on the bonds or from the General Account.

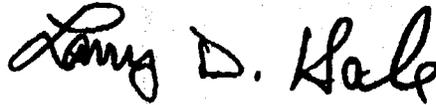
As President of the Henry County Council it is my belief that provisions of the ordinance are being followed as stipulated in the ordinance.

The County Treasurer has established the Food and Beverage Tax receipts fund. All amounts received are deposited into the fund and all interest earned remains in the fund.

After yearly audits of the Food and Beverage Tax Fund, without exception, to the practices of the County, I was not aware that there were issues with accounting practices. As President of the County Council I will discuss with all members of the County Council, Commissioners, Auditor and County Attorney the comments in the audit and will strive to be compliant in every aspect.

I believe that sufficient controls are in place to monitor the Food and Beverage Fund Projects through submission of prescribed claim forms to the Trustee and will work to ensure that proper forms are used in compiling data for future Board of Accounts audits.

Sincerely,

A handwritten signature in black ink that reads "Larry D. Hale". The signature is written in a cursive style with a large, stylized "L" and "H".

Larry Hale, President
Henry County Board of Commissioners