

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

AUDIT REPORT

OF

COUNTY AUDITOR

PORTER COUNTY, INDIANA

January 1, 2005 to December 31, 2005



FILED

11/29/2006

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
County Officials	2
Transmittal Letter	3
Audit Results and Comments:	
Capital Asset Records	4
Annual Report	4
Annual Report Receipt Classification	4-6
Payroll	6
Payroll Deductions	6-7
Appropriations	7
Temporary Loans and Transfers Between Funds	8
Drug Money Fund (Fund 247)	8-9
Tax Duplicate (Form 9)	9
Tax Settlement	10
Assessed Valuation Controls	10
Petition for Correction of Error, County Form No. 133	11
CEDIT Unallocated Fund	11
Excess Tax (Fund 43)	11-12
Tax Refunds	12
Tax Sale Surplus Ledger	12
Exit Conference	13

COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Sandra K. Vuko	01-01-03 to 12-31-06
President of the County Council	Robert Poparad Daniel Whitten	01-01-05 to 12-31-05 01-01-06 to 12-31-06
President of the Board of County Commissioners	Robert Harper	01-01-05 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 PORTER COUNTY

We have audited the records of the County Auditor 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 Porter County for the year 2005.

STATE BOARD OF ACCOUNTS

October 24, 2006

COUNTY AUDITOR
PORTER COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

	<u>General Property Taxes Annual Report</u>	<u>General Property Taxes Per Ledger</u>
General Fund	\$ 11,501,134	\$ 23,328,619
County Highway	4,049,706	-
Juvenile Housing Debt	3,168,000	-
Cumulative Bridge	3,145,162	239,041
Other Governmental Funds	<u>10,096,336</u>	<u>4,956,336</u>
Totals	<u>\$ 31,960,338</u>	<u>\$ 28,523,996</u>

	<u>Miscellaneous Receipts Annual Report</u>	<u>Miscellaneous Receipts Per Ledger</u>
General Fund	\$ 4,421,106	\$ 1,273,722
County Highway	-	157,088
Emergency Telephone E-911	1,645,853	91,694
Cumulative Bridge	-	73,334
Other Governmental Funds	<u>2,495,502</u>	<u>499,122</u>
Totals	<u>\$ 8,562,461</u>	<u>\$ 2,094,960</u>

	<u>Motor Vehicle Highway Distributions Annual Report</u>	<u>Motor Vehicle Highway Distributions Per Ledger</u>
General Fund	<u>\$ 3,559,738</u>	<u>\$ -</u>

	<u>Highway Permits Annual Report</u>	<u>Highway Permits Per Ledger</u>
General Fund	<u>\$ 332,879</u>	<u>\$ -</u>

Indiana Code 5-11-1-2(a) states in part:

"The state board of accounts shall formulate, prescribe, and install a system of accounting and reporting in conformity with this chapter, which must:

- (1) Be uniform for every public office and every public account of the same class and contain written standards that an entity that is subject to audit must observe;
- (2) exhibit true accounts and detailed statements of funds collected, received, obligated, and expended for or on account of the public for any and every purpose whatever, and by all public officers, employees, or other individual;

COUNTY AUDITOR
PORTER COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

- (3) show the receipt, use, and disposition of all public property and the income, if any, derived from the property;
- (4) show all sources of public income and the amounts due and received from each source; and
- (5) show all receipts, vouchers, contracts, obligations, and other documents kept, or that may be required to be kept, to prove the validity of every transaction."

PAYROLL

Our testing of the payroll system revealed the following deficiencies:

- 1. An unapproved "Employee's Attendance Record," serves as both a time card and an employee service record. In addition, an "Employee Leave Report" was in used in lieu of Form 99A to track compensatory, vacation, sick and personal days earned and used, however, it has not been approved.
- 2. Payroll state withholding authorizations were not presented for six employees of the twenty-five employees tested.

All governmental units are required by law to use the forms prescribed by this department; however, if it is desirable to use a different form or to have a prescribed form modified to conform for computer applications, a letter and three copies of the proposed form may be submitted to the State Board of Accounts for approval. No form should be printed and placed into use, other than a prescribed form, without prior approval. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

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)

PAYROLL DEDUCTIONS

We noted within Payroll Fund (44), several sub accounts had cash balances that were either dormant or not disbursed. The cash balances as of December 31, 2005, were as follows:

<u>Withholding Type</u>	<u>December 31, 2005</u>
Overpayments (Reimbursed)	\$ 1,867.05
Refund	57.60
Net Pay (Outstanding Warrants > 2 years)	8,821.68
Indiana Judge Retirement	186.48
Payroll (2 to 7 years)	3,026.18
Unknown Prior	2,895.01
Payroll > 7 years	372.84
Payroll Transfer	270.86
Sheriff Pension Unspecified	2,905.29
Reimbursement – Correction	
Workers Comp.	621.41

COUNTY AUDITOR
PORTER COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

The payroll fund is an agency fund which should not have a balance more than the next month's withholding disbursement after all disbursements are made within that fund. Balances should not accumulate from year to year.

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 County Auditor of Indiana, Chapter 14)

APPROPRIATIONS

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

Fund	Excess Amount Expended
General Fund - Election Board	\$ 1,291
General Fund - Sheriff's Garage	15,693
General Fund - Juvenile Detention	7,687
33 Auditor's Plat Map	11,535
34 PCADOS	65,730
57 County Surveyors' Corner Perpetuation	49,484
131 Northwest Indiana Regional Planning Commission	16,637
186 Enhanced Access	4,904
203 Tobacco Settlement Fund	5,961
213 Supplemental Public Defender Service	3,548
230 Juvenile Probation Administration Fee	270
233 Federal Grant Commissioners	6,189
252 CEDIT Project 3 Building Maintenance	71,647
291 Unsafe Building	4,146
211 Jail Lease Rental	10,626
25 Cumulative Bridge	6,954
	<hr/>
Total	<u>\$ 282,302</u>

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."

COUNTY AUDITOR
PORTER COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

TEMPORARY LOANS AND TRANSFERS BETWEEN FUNDS

Loans and transfers must be approved by council or commissioners, or be approved in the claim docket. Approval for 7 out of 14 temporary loans/transfers could not be found.

Whenever it becomes necessary to borrow money to enhance any depleted fund of the county and there is sufficient money on deposit to the credit of any other fund of the county which can be temporarily advanced or transferred to such depleted fund, it shall be lawful, upon the adoption of an ordinance or resolution by the county council, to make such advance for such period of time as may be prescribed in the ordinance or resolution, providing it does not extend beyond the budget year of the year in which the advancement and transfer is made. [IC 36-1-8-4] The only limitation is that any such advancement shall be made only from funds derived from the levying and collection of taxes on property, the levying and collection of special taxes, and from other revenue derived from any operation of the county. This limitation restricts advances from the proceeds of a bond issue, from trust and endowment funds, from federal grants and similar sources not meeting the authorized sources. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 6)

DRUG MONEY FUND (FUND 247)

As noted in the prior audit, the Indiana State Police seized \$376,445 in drug money in 2002. In 2004, a local county judge ordered the State Police to turn the money over to the Porter County Auditor for deposit into the County's General Fund. The County, in turn, remitted \$18,822.25 to the Town of Porter for local law enforcement costs incurred while assisting in the drug seizure case. The County also transferred \$213,135.25 to the Drug Money Fund from the General Fund and used these funds for employee longevity and health insurance costs.

In 2004, the Auditor was instructed to remit \$357,722.75 to the State's Common School Fund, as required by state statute, less the County's share of documented costs for assisting in the drug seizure case. As of October 1, 2006, the County has still not provided documentation for the County's share of unreimbursed costs incurred while assisting in the drug seizure case, nor has the County remitted any money to the State's Common School Fund.

Indiana Code 34-24-1-4 (d) states the following:

"If the court enters judgment in favor of the state, or the state and a unit (if appropriate), the court shall, subject to section 5 of this chapter:

- (1) determine the amount of law enforcement costs; and
- (2) order that:
 - (A) the property, if it is not money or real property, be sold under section 6 of this chapter, by the sheriff of the county in which the property was seized, and if the property is a vehicle, this sale must occur after any period of use specified in subsection (c);
 - (B) the property, if it is real property, be sold in the same manner as real property is sold on execution under IC 34-55-6;

COUNTY AUDITOR
PORTER COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

(C) the proceeds of the sale or the money be:

- (i) deposited in the general fund of the state, or the unit that employed the law enforcement officers that seized the property; or
- (ii) deposited in the general fund of a unit if the property was seized by a local law enforcement agency of the unit for an offense, an attempted offense, or a conspiracy to commit an offense under IC 35-47 as part of or in furtherance of an act of terrorism; and

(D) any excess in value of the proceeds or the money over the law enforcement costs be forfeited and transferred to the treasurer of state for deposit in the common school fund."

TAX DUPLICATE (FORM 9)

The County maintains Tax Duplicate Book Journals (tax duplicates) for real estate, mobile homes, personal property, railroads, and utilities. These journals are computerized records of all property owners in Porter County, the amount of tax billed and the amount paid by each property owner separated by taxing unit.

As noted in prior audit reports, the amounts recorded as collections of property taxes in the Treasurer's Cash Book, and on the County's Settlement and Distribution Report, are not the same amounts as recorded in the tax duplicates. In addition, amounts recorded in the tax duplicates as being billed does not agree to the amounts included on the county's approved abstract as the amounts billed for property taxes. Officials in the Treasurer, Auditor, and Information Technology (IT) offices were unable to explain the differences.

Also, the tax duplicates are computer generated forms that replace the forms prescribed by the State Board of Accounts. These forms have not been approved and are not exact replicas of the prescribed forms. Several columns of the prescribed form are not included on the county's form and all delinquent taxes and penalties are combined into one amount without distinguishing between taxing periods. Also, payment dates do not include the year and only the last date of payment is available when partial payments occur.

Inaccurate tax records can lead to misappropriation of county funds and improper tax distributions to the taxing units within the County.

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)

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)

COUNTY AUDITOR
PORTER COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

TAX SETTLEMENT

The 2004 taxes payable 2005 were not settled by the Auditor's office until March 20, 2006. Errors in advances, over-distributions that required taxing units to return tax dollars to the Auditor's office, and problems in reconciling settlement accounts contributed to the delay. \$3,090,287.33 distributed to taxing districts in error had to be returned to the County. Tax Increment Finance (TIF) was also distributed incorrectly and had to be adjusted/corrected.

By the provisions of IC 6-1.1-27-1 and 6-1.1-27-2 the county auditor and the county treasurer, on or before June 20th and December 20th of each year, shall meet to make settlement of taxes and special assessments, collected during the preceding six months periods ending May 10 and November 10, respectively, and at that time the treasurer shall also make settlement of any other collections required by law to be paid to the county treasurer. These sections are then followed by provisions in IC 6-1.1-27-3 that on or before June 30th and December 31st of each year the auditor shall send a copy of the certificate of settlement (Settlement Sheet) to the Auditor of State and pay to the Treasurer of State the money due the state as shown by the certificate of settlement. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 9)

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)

ASSESSED VALUATION CONTROLS

In 2005, the Auditor's office was not able to reconcile the assessed valuation of one of the taxing districts. The assessed value was approximately \$400 million too high. A computer programming error had occurred and an outside user inadvertently was able to change the assessed valuation of a property. (The property's approximate assessed valuation was less than \$120,000). The programming error was corrected and no other properties were affected. The auditor's office receives reports daily that detail all changes made to assessed valuation on the system. However, this error was not corrected in a timely manner. The result was budget shortfalls for the adjoining taxing districts and the return of \$3,090,287 in over-distributed taxes.

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 County Auditors of Indiana, Chapter 14)

COUNTY AUDITOR
PORTER COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

PETITION FOR CORRECTION OF ERROR, COUNTY FORM 133

The County Petition for Correction of Error, Form 133, completed in 2005 did not contain the appropriate number of signatures.

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)

CEDIT UNALLOCATED FUND

The County established fund 258 "CEDIT Unallocated" as a holding fund for the County's share of County Economic Development Income Tax (CEDIT). However, the County has not used fund 258 for this purpose. Instead, the County's share of CEDIT that has not been earmarked for a specific CEDIT project has been accumulated in fund 240 "CEDIT Fund." Fund 240 is a tax distribution agency fund that receives all CEDIT from the State and then disburses to the County and each city and town its allocable share of CEDIT. At December 31, 2005, Fund 240 had a cash balance of \$1,216,930. This balance should be in Fund 258 "CEDIT Unallocated" as this balance belongs to the county. Fund 240 "CEDIT Fund" should have a zero balance at year end.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

EXCESS TAX (FUND 43)

The detail of the auditor's surplus tax fund reports called "Treasurer's Schedule of Excess Tax Payments Received" is not in agreement to the cash balance in the Excess Taxes Fund. The detail in the Auditor's office is \$5,091.75 less than the cash balance of the Excess Taxes Fund (Fund 43) at December 31, 2005. In addition, \$138,140.61 of unclaimed payments that are over three years old were not transferred to the General Fund.

Excess (surplus) tax shall be reported by the treasurer on the County Treasurer's Certificate of Tax Collections, County Form 49TC. The County Treasurer is also required to file Ledger Form 65-STF, Surplus Tax Fund Ledger, listing in detail by taxing district each item of surplus tax collected, the total of which shall be receipted into the "Surplus Tax Fund." The detail ledger sheets shall be placed in the county auditor's ledger and be disbursed in the appropriate manner.

If an excess payment is not claimed within the three (3) year period after November 10 of the year in which the payment was made and the county treasurer has given the written notice, the county auditor shall transfer the excess from the surplus tax fund to the general fund of the county. If the county treasurer has given written notice concerning the excess, the excess may not be refunded after the expiration of that three (3) year time period. [IC 6-1.1-26-6(c)] (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 9)

COUNTY AUDITOR
PORTER COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

TAX REFUNDS

The total of the Auditor's spreadsheets which were generated from the Refund of Taxes Claims (17T's) totaled \$6,146,317.11 and the total of the settlement which was receipted into the Refunds Fund (Fund 62) in March 2006 totaled \$6,145,583.95 which is a difference of \$733.16. The total of the Auditor's spreadsheets which were generated from the 17T's totaled \$6,146,317.11 and the total distributed from Fund 62 during 2005 totaled \$6,211,972.45 which is a difference of \$65,655.34. These dollar amounts should agree and this fund should zero out after the tax settlement has been received.

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 Auditor's of Indiana, Chapter 14)

TAX SALE SURPLUS LEDGER

The following deficiencies concerning the tax sale surplus fund were noted:

1. Five claims disbursed out of the Tax Sale Surplus Fund (64) were not posted as paid to the manually prepared Tax Sale Surplus Fund Ledger.
2. One claim disbursed out of the Tax Sale Surplus Fund (64) could not be traced to actual receipts.
3. One claim was disbursed totaling \$11,233.11 but was posted to the ledger as \$12,147.37.
4. The Tax Sale Surplus Fund (64) and the Tax Sale Surplus Ledger were not reconciled at December 31, 2005.
5. Items over three years old have not been receipted back into the general fund.

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)

COUNTY AUDITOR
PORTER COUNTY
EXIT CONFERENCE

The contents of this report were discussed on October 24, 2006, with Sandra K. Vuko, Auditor; Robert Harper, President of the Boar of County Commissioners; and Daniel Whitten, President of the County Council.