

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

EXAMINATION REPORT
OF
NORTH TOWNSHIP
LAKE COUNTY, INDIANA
January 1, 2005 to December 31, 2006



FILED

11/05/2007

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Trustee	G. Gregory Cvitkovich Dennis Simala Frank J. Mrvan	01-01-05 to 10-01-05 10-02-05 to 11-10-05 11-11-05 to 12-31-10
Chairman of the Township Board	Frank J. Mrvan Richard Novak	01-01-05 to 11-10-05 11-11-05 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF NORTH TOWNSHIP, LAKE COUNTY, INDIANA

We have examined the financial information presented herein of North Township (Township), for the period of January 1, 2005 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 present fairly, in all material respects, the financial information of the Township for the years ended December 31, 2005 and 2006, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information, and accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

September 5, 2007

NORTH TOWNSHIP, LAKE COUNTY
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
As Of And For The Years Ended December 31, 2005 And 2006

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
Township	\$ 3,113	\$ 1,302,816	\$ 1,128,700	\$ 177,229
Dog	300	-	-	300
Township Assistance	748,709	8,000,942	7,296,528	1,453,123
Park and Recreation	15,239	2,069,584	1,679,070	405,753
Cumulative Recreation	848,634	1,385,631	1,546,929	687,336
Fiduciary Funds:				
Township Miscellaneous	-	2,618,819	2,618,819	-
Payroll Withholdings Assistance	5,008	550,700	555,708	-
Payroll Withholdings Park	-	261,633	261,633	-
Totals	<u>\$ 1,621,003</u>	<u>\$ 16,190,125</u>	<u>\$ 15,087,387</u>	<u>\$ 2,723,741</u>

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
Township	\$ 177,229	\$ 2,002,436	\$ 1,802,385	\$ 377,280
Dog	300	59	-	359
Township Assistance	1,453,123	5,711,748	6,413,233	751,638
Park and Recreation	405,753	1,431,872	1,648,438	189,187
Cumulative Recreation	687,336	647,246	357,596	976,986
Township Nonreverting	-	7,664	6,202	1,462
Park Nonreverting	-	32,468	25,308	7,160
Fiduciary Funds:				
Township Miscellaneous	-	1,049,262	1,049,262	-
Payroll Withholdings Assistance	-	543,710	543,710	-
Payroll Withholdings Park	-	287,955	287,955	-
Totals	<u>\$ 2,723,741</u>	<u>\$ 11,714,420</u>	<u>\$ 12,134,089</u>	<u>\$ 2,304,072</u>

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

NORTH TOWNSHIP, LAKE 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: 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 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.

Property tax rates and levies for 2004 taxes payable in 2005 were not established by February 15, 2004, as required by state statute due to the delay in the completion of the reassessment of Lake County. The 2005 property tax rates and levies were not established until October 2004; thus, the property taxes were not billed or collected timely. The tax bills were mailed to Lake County residents on October 31, 2005. They were due in two installments on November 18, 2005, and February 10, 2006. The final settlement of the 2004 taxes payable in 2005 was distributed to the various governmental entities in March 2006.

Property tax rates and levies for 2005 taxes payable in 2006 were not established by February 15, 2005, as required by state statute due to the delay in the completion of the reassessment of Lake County. The tax bills were mailed to Lake County residents in August 2006. They were due in two installments on August 29, 2006, and November 14, 2006. The final settlement of the 2005 taxes payable in 2006 was distributed to the various governmental entities on January 4, 2007.

NORTH TOWNSHIP, LAKE COUNTY
NOTES TO FINANCIAL INFORMATION
(Continued)

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.

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. Subsequent Events

Property tax rates and levies for 2006 taxes payable in 2007 were not established by February 15, 2006, as required by state statute due to the delay in the completion of the reassessment of Lake County. Currently, tax bills have not been mailed for the spring installment, normally due May 10.

NORTH TOWNSHIP, LAKE COUNTY
NOTES TO FINANCIAL INFORMATION
(Continued)

To alleviate the delay in receiving property tax distributions, the Township borrowed money through the issuance of Tax Anticipation Warrants (TAW) on August 2, 2007, for \$1,500,000 from the Township Assistance Fund. The TAW is due December 31, 2007.

Park District Bonds Series 2007 of \$1,500,000 were issued May 17, 2007, at an interest rate of 4%. The proceeds are to be used for construction at Wicker Park. The bonds are to be repaid on July 15 and January 15 beginning in 2008 through 2014 from the Cumulative Park Fund.

NORTH TOWNSHIP, LAKE COUNTY
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

December 31, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 159,516
Land improvements	745,473
Buildings	752,092
Machinery and equipment	731,095
Vehicles	<u>126,250</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 2,514,426</u>

NORTH TOWNSHIP, LAKE COUNTY
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

December 31, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Four copy machines	\$ 34,558	\$ 14,116
Various park equipment	2,949	2,949
Total governmental activities long-term debt	\$ 37,507	\$ 17,065

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS

ANNUAL REPORT

The annual reports prepared by the Township were incomplete and did not include all funds and activity of the Township. Three funds were not reported on the annual reports of the Township: Township Miscellaneous Fund, Township Assistance Payroll Withholdings Fund, and Park Payroll Withholdings Fund. A similar comment appeared in the prior Report B27019.

When the trustee prepares the annual report mentioned above, the trustee shall also prepare an abstract of receipts and disbursements on forms prescribed by the State Board of Accounts. The abstract shall include; (1) the sum of money in each fund of the township at the beginning of the year, (2) the sum of money received in each fund of the township during the year, (3) the sum of money paid from each fund of the township during the year, (4) the sum of money remaining in each township at the end of each year, (5) a statement of receipts, showing their source and, (6) a statement of expenditures, showing the combined gross payment, according to classification of expense to each person. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

PAYROLL DEFICIENCIES

The following deficiencies were noted in the test of payroll:

1. The Township Form 17, Salary Resolution, does not include longevity paid to all positions. General Form 99B, Employee Earnings Record, does not include all deductions or longevity paid to the employees.
2. The Township Form 17, Resolution Establishing Salaries of Township Officers and Employees, indicated a lump sum amount for all part-time employees paid from Township Assistance. The Form also has 11 hourly positions all with the title Park paid from Park and Recreation. A lump sum amount is shown for five clerks paid from Township Assistance.
3. Some biometric time clock sheets presented for examination did not agree with the General Form 99A, Employee Service Record.
4. Employee Service Records for one employee showed one week of vacation leave used and the time sheet for that week indicated he worked.
5. The Form W2 did not report deferred compensation, evidence of qualified retirement plan (PERF), or noncash benefits paid for personal use of a Township vehicle. Both the former Trustee and the current Trustee had personal use of a Township vehicle.
6. The amounts reported as federal taxes withheld and Medicare withheld on Form W3, Transmittal of Wage and Tax Statement, for 2006 were incorrect.

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)

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

All types of employee benefits should be detailed in a written policy. Payments for expenses not authorized in a written policy cannot be allowed. The board should adopt policies governing sick leave, vacation leave, and any other types of special leave. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 17)

The federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms: General Form 99A, Employee's Service Record, and General Form 99B, Employee's Earnings Record. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 17)

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 17)

The Employee's Earnings Record is to be used for each officer and employee receiving payment for services rendered from the township. The posting information is to be taken from the tear strip on Check Form 6 and provides a proof of payments made for the year, in addition to accumulating amounts withheld from salaries and wages for taxes, social security, PERF, etc. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 2)

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)

PENALTIES AND INTEREST

North Township paid penalties and interest to the Indiana Department of Revenue totaling \$613.74 on December 20, 2006, for the late payment of October 2006, State withholding taxes. The taxes were due November 20, 2006, but were paid December 7, 2006. The State assessed a 10% penalty of \$597.42 on the late payment and interest of \$16.42.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit. Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

TEMPORARY LOANS BETWEEN FUNDS

A temporary loan of \$100,000 was made on May 23, 2006, from the Cumulative Park Fund (1390) to the Park and Recreation Fund (1312) and not repaid by December 31, 2006. The loan has not been repaid as of July 31, 2007. The Township Board minutes did not indicate that an emergency existed to extend the repayment date.

Five loans between funds totaling \$300,000 were posted to the 2005 financial records. The 2005 Township Board minutes did not indicate approval of these temporary loans between funds.

NORTH TOWNSHIP, LAKE COUNTY
 EXAMINATION RESULTS AND COMMENTS
 (Continued)

Indiana Code 36-1-8-4 concerning temporary loans states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision . . .

(3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.

(4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the Department of Local Government Finance."

DISBURSEMENTS EXCEEDED APPROPRIATIONS

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

Fund	Year	Excess Amount Expended
Park and Recreation (1312)	2006	\$ 93,438

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."

UNTIMELY PAYMENTS

Payments were not made in a timely manner from the Township Assistance Fund to Reid Sav-On Pharmacy and to various landlords. Payments were made to the pharmacy 58 to 110 days after receiving the purchase order and to the landlords 49 to 128 days after receiving the purchase order.

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

All townships are now required to pay township assistance. Such claim or claims shall be carefully reviewed and approved by the trustee as the administrator of township assistance. The township trustee shall pay claims against the township for township assistance in the same manner that other claims against the township are paid. The township trustee, when authorized to pay claims directly to vendors, shall pay a claim within forty-five (45) days. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 6)

SUPPORTING DOCUMENTATION

Some credit card invoices did not have receipts attached as supporting documentation for the disbursement. Attached receipts did not always state the purpose for the disbursement. A similar comment appeared in the prior Report B27019.

Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payment 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. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

PRESCRIBED FORMS

Caseworkers at both Township Office locations for Township assistance prepared Township Form PR-1A (Revised 1996 or 2002), Notice of Poor Relief Action, instead of prescribed Township Assistance Form TA-1A (Revised 2004), Notice of Township Assistance Action. The Township used computer software to prepare the forms.

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)

RECEIPT ISSUANCE

The Township's Wicker Park Office has not written receipts for any of the splash pad daily collections submitted to the Park Office for deposit. A similar comment appeared in the prior Report B27019 for the Pro Shop collections.

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)

NORTH TOWNSHIP, LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on September 5, 2007, with Frank J. Mrvan, Trustee; Jane Dudley, Chief Deputy Trustee; Susan Tokarz, Human Resource Director; Lori Polgar, Director of Operations; Richard Novak, Chairman of the Township Board; and David Gladish, Township Attorney. The official response has been made a part of this report and may be found on pages 15 through 17.

The contents of this report were mailed by certified letter on September 13, 2007, to G. Gregory Cvitkovich, former Trustee. An official response has not been received.

FRANK J. MRVAN

NORTH TOWNSHIP TRUSTEE



LAKE COUNTY
INDIANA

(MAIN OFFICE)
5947 Hohman Ave.
Hammond, IN
46320

(219) 932-2530
Fax (219) 937-4412

2105 Broadway
East Chicago, IN
46312

(219) 398-2435
Fax (219) 397-2190

September 06, 2007

OFFICIAL RESPONSE

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

Mailed to: 2293 North Main Street
Building A, Room -308
Crown Point, Indiana 46307

RE: North Township of Lake County, Indiana – Response to Audit
Report Period Examined January 1, 2005 to December 31, 2006
Date of Exit Conference: September 05, 2007

Dear Ladies and Gentlemen:

Prior to responding to the audit, I would like to take this opportunity to bring to the Indiana State Board of Accounts the fact that G. Gregory Cvitkovich was the Trustee responsible for North Township up to October, 2005. Notwithstanding the above I will respond to the times indicated in the audit as follows:

A. Annual Report:

1. North Township's accounting department knows of the deficiencies noted in the audit and has taken steps to insure that the appropriate steps are taken to include longevity paid on the Township Form 17, Salary Resolution.
2. The Accounting department will make corrections on the 2008 Township Form 17, Salary Resolution to list all employment positions individually.
- 3 & 4. The Township is aware of the problems with the biometric time clock and employee service records and will contact software support to correct flaws as well as having service records double checked by the Accounting Department.
5. The Accounting department will make corrections to the W-2 and add deferred compensation, PERF or non-cash benefits paid for personal use of the Township vehicle.

6. The Accounting department has made note of the mistake on the Form W3 for the incorrect amount reported in 2006 and a written policy will be put into effect on employee benefits.

B. Penalties and Interest:

1. The Accounting department is aware of the penalties and interest paid to the Indiana Department of Revenue on December 20, 2006 and will not let payments get in arrears.

C. Temporary Loans between Funds:

1. The Accounting department is now aware that all transfer of funds be approved by the Township Board in a public meeting by resolution or ordinance and shall pay the funds back within the six (6) months stated unless an emergency exists and an extension is granted by an ordinance or resolution by the Township Board and shall forward it to the State Board of Accounts and the Department of local Government Finance.

D. Disbursements exceeded Appropriations

1. The Accounting department had a problem with the software including all funds of expenditures being added into the Appropriation balance; therefore the excess amount was spent. The software will be updated to reflect all funds to eliminate this problem.

E. Untimely Payments:

1. The Accounting department is aware that all payments to vendors were not paid in a timely manner due to the property tax delay; therefore there was lack of funds. The Township will try and take out enough tax anticipation loans in the future so as this problem does not happen in the future.

F. Supporting Documentation

1. The Township is aware that all detailed receipts must accompany credit card statements and the purpose of the charge and person charging must be confirmed, as well as making payment on time to defer late or finance charges. In the future we will have supporting documentation and timely payments.

G. Prescribed Forms

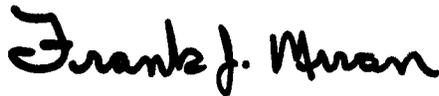
1. The Township office has made changes to the software to use the Township Assistance Form TA-1A as prescribed by the State Board of Accounts.

H. Receipt Issuance

1. The Townships Wicker Park Office has been notified that all daily collections of funds from the park must have a written receipt and the Township Office will do a follow up to ensure such procedure is followed.

I appreciate having the opportunity to respond to your comments. I look forward to working with the Indiana State Board of Accounts to insure that we have made positive changes with North Township to insure that your points are properly addressed in the future.

Sincerely,



Frank J. Mrvan
North Township Trustee

FJM/lbp