

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

AUDIT REPORT

OF

COUNTY TREASURER

PORTER COUNTY, INDIANA

January 1, 2006 to December 31, 2006



FILED

11/30/2007

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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	James Murphy	01-01-02 to 12-31-09
President of the County Council	Daniel Whitten	01-01-06 to 12-31-07
President of the Board of County Commissioners	Robert Harper	01-01-06 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF PORTER COUNTY

We have audited the records of the County Treasurer for the period from January 1, 2006 to December 31, 2006, 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 2006.

STATE BOARD OF ACCOUNTS

September 27, 2007

COUNTY TREASURER
PORTER COUNTY
AUDIT RESULTS AND COMMENTS

SALE OF COUNTY OWNED HOSPITAL

On May 1, 2007, the County sold Porter Hospital, a County owned hospital. At the closing, in addition to the sales price, several accounts held by Porter Hospital and the balances of those accounts were transferred to the County. The accounts included the operating, payroll, self-insurance and customer refund account, investment accounts, and other accounts in which funds are held in trust for the payment of existing Hospital long-term debt.

The money was transferred from the operating, payroll, self-insurance, and customer refund accounts into a new County bank account. This account is to be used to cover checks written by the Hospital prior to the date of sale, but which have not yet cleared the bank. Additionally, the County is to issue checks from this account for bills incurred by the Hospital prior to the date of the sale, but for which bills had not yet been presented for payment.

The money held in the various trust accounts for the payment of long-term debt incurred by the Hospital will remain in those accounts until such time as the debt has been extinguished.

Finally, the money held in the investment accounts and the sale price can be used by the County at the discretion of the County fiscal body after a five year period.

All of these funds have been transferred to the County based upon closing documents; however, none of the money has been receipted into the County funds. Based upon closing documents, cash and investments received totaled \$129,805,570; however, the County is not being provided with investment account statements for some accounts including an investment account with a balance of \$49,999,275 and another with a balance of \$14,910,180.

The County is paying bills for goods and services provided prior to the closing date and for expenses incurred as a result of the sale of the Hospital; however, none of these transactions are being recorded in the official records of the County. None of the expenses are being processed in accordance with claims procedures established by statutes.

Indiana Code 16-22-3-17(j) states:

"The proceeds of the sale or lease of all of the hospital buildings must first be applied to outstanding indebtedness attributable to the hospital buildings. The commissioners shall deposit the balance of the proceeds from the sale or lease and any property in the hospital fund in:

- (1) a nonexpendable interest bearing trust fund from which claims are paid for county hospital claims for the indigent or any other fund that the county executive and county fiscal body designate; or
- (2) the county general fund."

Indiana Code 36-2-10-16 (a) states in part:

"Before the sixteenth day of each month, the treasurer shall prepare a report showing, as of the close of business on the last day of the preceding month, the following items: . . .

- (3) The totals of money received from all other sources and not receipted into the ledger fund accounts of the county at the end of the month.

COUNTY TREASURER
PORTER COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

- (4) The total of the balances in all ledger fund accounts.
- (5) The total amount of cash in each depository at the close of business on the last day of the month."

Indiana Code 36-2-6-2 states: "A person who has a claim against a county shall file an invoice or a bill with the county auditor. The auditor shall present the invoice or bill to the executive, which shall examine the merits of the claim. The executive may allow any part of the claim that it finds to be valid."

TAX SETTLEMENT

When property taxes are "settled", a form is compiled by the Auditor which reconciles the billings and collections to the cash available for settlement based upon the Treasurer's record of cash collected from property taxes. The Auditor's numbers are based upon computerized reports. The Treasurer's numbers are based upon his manual ledger of cash balances, and the reconciled bank balance. The form compiled by the Auditor must be approved by the State of Indiana Auditor's Office prior to settlement being made.

The December settlement of the 2005 pay 2006 taxes was completed by the State of Indiana Auditor's Office after the settlement completed by the County Auditor's Office was not approved. Multiple discrepancies existed that resulted in a \$1,748,943.13 adjustment to balance County Auditor's tax records with the County Treasurer's cash collections for this time period. Some of the discrepancies between what was reported on the settlement and what was reported on the computer system were as follows:

1. The amount reported on the computer system as "billed" as not in agreement with the amount reported on the settlement as "charges" (billed) by \$2,300,615.
2. The amount reported on the computer system for the "10% penalty on current first installment delinquent" differed from the amount reported on the settlement sheets by \$85,900.63. Eleven taxing districts were inadvertently omitted from the settlement sheet.

The County maintains Tax Duplicate Book Journals (tax duplicates) for real estate, mobile homes, personal property, railroads, and utilities. The journals are computerized records of all property owners in Porter County. The journals document the amount of tax billed and the amount paid by each property owner separated by taxing unit. In addition to the computer reports, the settlement numbers should also agree with the tax duplicate books. Discrepancies were also noted between these two records as follows:

1. The amounts recorded as collections of property taxes in the Treasurer's Cash Book and on the County's Settlement and Distribution Report were not the same amounts as recorded in the tax duplicates. In addition, amounts recorded in the tax duplicates as being billed did 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 Technologies and Service (ITS) offices were unable to explain the differences.
2. The certificate of errors reported on the settlement reports did not agree with the year end tax duplicate certificate of error totals. The certificates of errors from the penalties were not included in the tax duplicate totals.
3. An amount posted as "PP Audit" in the "billed" portion of the computer report could not be traced to the tax duplicate reports.

COUNTY TREASURER
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AUDIT RESULTS AND COMMENTS
(Continued)

Furthermore, 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.

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. (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 6)

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 Treasurers of Indiana, Chapter 10)

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 Treasurers of Indiana, Chapter 10)

DEPOSITS

Tax collections received by the Treasurer's office after the due date are not posted or deposited until after all of the payments that were not overdue are posted, which may be up to four weeks after being received. These late payments are not posted until after the settlement is certified to the County Auditor. Payors of late payments are issued temporary receipts and the collections are held in the office. This can result in inaccurate financial data or an increase risk of errors occurring.

Indiana Code 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

DEPOSIT COMPOSITION

The treasurer receipts did not always specify if the amount that was collected was cash or check, thus, the composition of the receipts to the deposit could not be verified.

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."

COUNTY TREASURER
PORTER COUNTY
EXIT CONFERENCE

The contents of this report were discussed on October 1, 2007, with James Murphy, Treasurer; and Janna Pursell, Chief Deputy Treasurer.