

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

AUDIT REPORT

OF

COUNTY TREASURER

PORTER COUNTY, INDIANA

January 1, 2007 to December 31, 2007



FILED

09/11/2008

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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	James Murphy	01-01-06 to 12-31-09
President of the County Council	Daniel Whitten Robert Poparad	01-01-07 to 12-31-07 01-01-08 to 12-31-08
President of the Board of County Commissioners	Robert Harper	01-01-07 to 12-31-08



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, 2007 to December 31, 2007, 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 2007.

STATE BOARD OF ACCOUNTS

July 14, 2008

COUNTY TREASURER
PORTER COUNTY
AUDIT RESULTS AND COMMENTS

FINANCIAL STATEMENT OPINION MODIFICATION - SALE OF COUNTY OWNED HOSPITAL

As stated in the prior report, on May 1, 2007, the County sold Porter Hospital (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 were held in trust for the payment of existing hospital long-term debt.

A portion of the proceeds was transferred from the operating, payroll, self-insurance and customer refund accounts into a new County bank account. This account is used to provide funds for checks written by the Hospital prior to the date of sale, but which have not yet cleared the bank and to issue checks for goods and services incurred by the hospital prior to the date of the sale, but for which invoices had not yet been presented for payment. Furthermore, the money held in 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 balance of funds held in the investment accounts and the remaining proceeds can be used by the County at the discretion of the county fiscal body after a five year period.

All of the Hospital funds were transferred to the County based upon closing documents on May 1, 2007; however, none of the money was receipted into County funds during 2007. In addition, the County paid invoices 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 were recorded in the official records of the County. Furthermore, none of the disbursements were processed in accordance with claims procedures established by state statutes.

Based on a review of the bank activity from May 1, 2007 until December 31, 2007, of the County's hospital bank accounts, deposits totaled \$180,669,785, withdrawals totaled \$37,799,876 and the ending cash and investment balance as of December 31, 2007, was \$142,869,809 was not recorded in the County's financial records for 2007. Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Auditors' Report for the financial statements.

In December 2007, the County Commissioners approved three ordinances establishing funds for the proceeds from the sale of the Hospital which were not effective until January 1, 2008. The proceeds from the sale of the Hospital were posted to the County's fund ledger in February 2008.

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."

COUNTY TREASURER
PORTER COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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) he 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.
- (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."

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

MAJOR MOVES INVESTMENT INTEREST NOT POSTED

In June 2007, the County invested \$14,369,910 of major moves proceeds from the State of Indiana into an investment account which purchased investments from U.S. agencies. The County receives monthly statements from the bank; however, the interest earned on the investments was not posted to the County's records. As of December 31, 2007, the investment balance was \$14,718,233; thus, \$348,323 of interest was not posted to the County records.

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)

TAX SETTLEMENT

As stated in prior report, 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 a 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.

COUNTY TREASURER
PORTER COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

The tax bills for the 2006 pay 2007 taxes were not due until January 11, 2008. On February 11, 2008, the Treasurer certified the amount of taxes collected on the County Treasurer's Certificate of Tax Collections, County Form 49TC. However, the settlement submitted by the Auditor's office to the State of Indiana was not approved until June 2, 2008. Multiple discrepancies existed that resulted in an \$817,814.65 adjustment to balance the County Auditor's tax records with the Treasurer's cash collections of this time period. Some of these 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" was not in agreement with the amount reported on the settlement as "charges" (billed) by \$5,512,173.
2. The amount reported on the computer system as "certificate of error - minus" was not in agreement with the amount reported on the settlement as "certificate of error issued during year - credit" by \$4,951,226.

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 Services (ITS) offices were unable to explain the differences. The county reported a \$2,683,673 deduction adjustment on the settlement report for adjustments for abstract errors.
2. The certificate of errors reported on the settlement reports did not agree with the yearend tax duplicate certificate of error totals. The real estate certificates of errors from the penalties were not included in the tax duplicate totals. In addition, the certificate of errors for mobile homes, personal property, railroads, and utilities are not reflected on their respective tax duplicate reports.

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 Indiana Code 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 Auditors of Indiana, Chapter 9)

COUNTY TREASURER
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.

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)

ADVANCE COLLECTIONS

When tax collections are received in advance of the Treasurer's office being able to post the collections to the computer system, the Treasurer's office collects the tax payment and completes a "temporary receipt." The collections are deposited separately from other collections and are marked as pre-pays on the deposit slip and posted to the Treasurer's Daily Cash Book as "advance tax collections."

The "temporary receipt" is a full sheet of paper in which the duplicate number, taxing unit, which type of tax was collected (real estate, personal, or mobile home), year of tax, received of, address of, the amount of tax, the date collected and the Treasurer's name already stamped are all noted. The temporary receipt is completed with the original given to the tax payer and a copy maintained at the Treasurer's office. A spreadsheet of all the advance collections is maintained with the Treasurer's copy of the "temporary receipt." Once the tax bills have been sent and computer system is able to post current year collections, the Treasurer's office post the advance collections from the spreadsheet maintained of the advance collections and moves the collections from the "advance tax collections" to "tax collections" on the Treasurer's Daily Cash Book.

The temporary receipts used to document the advance tax collections are not prenumbered, are not an approved form, are signed in advance of the transaction and were not retained for audit.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. Checks and receipts should be prepared timely and not signed in advance of the event or transaction. (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 10)

Indiana Code 5-15-6-3(d) concerning destruction of public records, states in part: "No financial records or records relating thereto shall be destroyed until the earlier of the following actions: (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied."

COUNTY TREASURER
PORTER COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

DEPOSITS

As stated in prior reports, 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. The 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.

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

As stated in the prior report, the Treasurer's receipts do not always specify if the amount that was collected was cash or check. In addition, the composition posted to the Daily Tax Postings report does not always agree to the composition noted on the receipt. 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 July 14, 2008, with James Murphy, Treasurer; and Janna Pursell, Chief Deputy Treasurer.