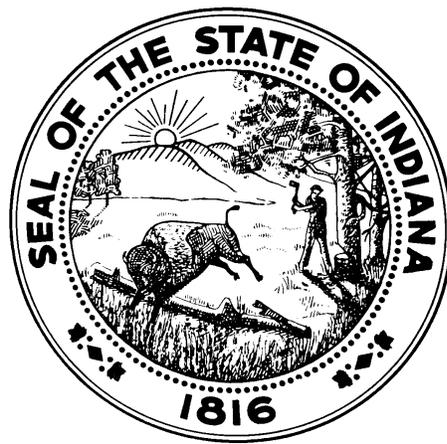


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF
COUNTY AUDITOR
HARRISON COUNTY, INDIANA
January 1, 2007 to December 31, 2007



FILED
09/24/2008

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COUNTY OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|---|-------------------|----------------------|
| Auditor | Patricia A. Wolfe | 01-01-07 to 12-31-10 |
| President of the County Council | Carl L. Mathes | 01-01-07 to 12-31-08 |
| President of the Board of County Commissioners | James Goldman | 01-01-07 to 12-31-08 |



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF HARRISON COUNTY

We have audited the records of the County Auditor 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 Harrison County for the year 2007.

STATE BOARD OF ACCOUNTS

August 28, 2008

COUNTY AUDITOR
HARRISON COUNTY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER PAYROLL WITHHOLDINGS

The detail of payroll withholdings reconciles to the payroll withholding control balance as of December 31, 2007. However, the individual withholding funds are not being reconciled. At December 31, 2007, the account balances of the Due To State Withholding, Due To Local Withholding, and Due To PERF Withholding, had in sufficient balances of \$1,732, \$457, and 913, respectively to make the required remittances due in January 2008.

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, Chapter 14)

INTERNAL CONTROLS OVER GRANT FUNDS

Controls over the receipting, disbursing, recording, and accounting for the financial activities of some grant funds were insufficient. The following items note deficiencies in the record keeping of the financial activity of these grants:

- (1) A Juvenile Accountability Incentive Block Grant, 05-JB-008, was awarded to Harrison County. The receipts for this grant were posted to Fund 4653 (Criminal Justice 05-JB-008) and disbursements were accounted for in Fund 4647 (JABG Grant - Prosecutor).
- (2) An Edward Byrne Memorial Justice Assistance Grant Program, 06-DJ-036, was awarded to Harrison County. The receipts for this grant were posted to Fund 4657 (ICJI 06-DJ-036) and disbursements were accounted for in Fund 4652 (JAG Grant 07-DCCAP-059).
- (3) A Homeland Security Grant, C-44-P-7-356, was awarded to Harrison County. The disbursement was paid from Fund 4637 (EMA Grant Homeland Security) and the reimbursement of the disbursement received in April of 2008, was posted to Fund 4658 (2006 HSG EDS#C44P-7-356).

As a result, each fund from which the disbursements were paid, has a negative cash balance as of December 31, 2007.

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, Chapter 14)

COUNTY AUDITOR
HARRISON COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

During June 2007, the Internal Revenue Service (IRS) performed a compliance check of Harrison County for the period ending December 31, 2005. The result of their compliance check determined that the County had failed to properly account for and report the following fringe benefits:

1. Reimbursement for meals

Some employees received reimbursement for meals that are considered a taxable fringe benefit but were not included as income on the employees W-2.

Reimbursement of employee meals while attending meetings or conferences where the employee does not incur overnight travel or travel long enough to require substantial sleep or rest is a fringe benefit and considered wages under Internal Revenue Code (IRC) sections 3121 and 30401. The amount of the meal reimbursement is to be included in the recipient's income and taxable as wages subject to federal income tax, Social security and Medicare tax withholdings.

For 2007, the County began to properly report meals reimbursed as wages subject to all employment taxes where the reimbursement is made and the employee did not incur overnight travel or travel long enough to require substantial sleep or rest.

2. Cellular Telephones

Cellular phones are issued to some employees and there is not a policy in place to prohibit personal use of the phones and no personal use was included as a fringe benefit in the employee's W-2.

The personal use of a County issued cellular phone is considered a taxable fringe benefit and is to be reported on the employee's W-2's.

For 2007, the County began to properly include personal use of cellular phone as compensation on employee's W-2's.

3. Clothing/Uniforms

Some employees are provided uniforms that do not meet the criteria which would allow them not to be excluded from wages of an employee.

In order to be excluded from wages the clothing or uniforms must meet the following criteria:

- Specifically required as a condition of employment, and are
- Not worn or adaptable to general usage as ordinary clothing
- Accountable plan rules must be met.

For 2007, the County began to properly include the value of clothing and uniforms that do not meet the criteria above as compensation on employee's W-2's.

COUNTY AUDITOR
HARRISON COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

4. Personal use of County owned vehicles

County owned vehicles are furnished to certain employees to be used for County business and to drive to and from work. Records were not maintained to substantiate business/personal use of the vehicles, no written policies exist which prohibit personal use of the vehicles, and the County does not include the value of any personal use in the employee's Form W-2.

Personal use of County owned vehicle is considered a fringe benefit and is considered wages under IRC 3121 and 3401.

County officials were instructed by the IRS to calculate the fringe benefit and file corrected W2c and W3c for 2005 and 2006. Officials were also instructed to file corrected Form 941 to report these additional wages and pay the additional tax on the Form 941 for the third quarter of 2007. Additionally, officials were instructed to report all personal use of employer provided vehicles which are not reimbursed by the employee in subsequent periods as wages and withhold and remit the employment taxes timely.

During 2007, County officials complied with the IRS instructions and calculated the fringe benefit and filed corrected W2c and W3c for 2005 and 2006. Additional wages calculated were \$9,503.60 and \$13,586.94 for 2005 and 2006, respectively. Taxes owed on the additional wages for 2005 and 2006 totaled \$3,532.85 and were included on Form 941 for the third quarter of 2007.

For 2007, personal use of County owned vehicles was properly included as compensation on employee's W-2's.

During the compliance review it was also noted that the County failed to obtain and have on file Form W-9 for all vendors. Form W-9 is used to obtain Tax Identification number of a vendor and protect from implementing back up withholding tax. Information from Form W-9 is also used for the preparation and reporting of income on Form 1099.

County officials were instructed by the IRS to solicit the Form W-9 prior to issuance of any vendor payments. Additionally, County officials were instructed to review payments to vendors during 2005 and 2006 and determine if there were any vendors in which a Form 1099 was not issued when one should have been. If any instances were noted, then the County was to issue a Form 1099 for each of these vendors and submit Form 1096 to the IRS.

During 2007, County officials complied with the instruction of the IRS and solicited Form W-9 from all vendors. Payments to vendors for 2005 and 2006 were reviewed. Upon completion of the review, it was determined that there were 74 and 91 vendors in 2005 and 2006, respectively, that were not issued a Form 1099 that should have been. The County issued Form 1099 to these vendors and submitted Form 1096 to the IRS on October 19, 2007.

For 2007, the County properly issued Form 1099 to all vendors which were required to receive one.

COUNTY AUDITOR
HARRISON COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

In August 2008, the County received a notice of a "proposed" penalty for failure to file correctly by the due date 1099's for the tax period ending December 31, 2006. The penalty proposed is \$50.00 for each 1099 that was not filed by the due date. The total proposed penalty amount is \$4,550. The notice provided the County 45 days to respond if they did not agree with the penalty. On September 12, 2008, the County Auditor responded in writing disputing the proposed penalty based on the efforts made to comply with the instructions provided to her during the compliance review.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

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 County Auditors, Chapter 14)

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 Auditors, Chapter 14)

SERVICE AND TIME RECORDS

The prior audit noted that employee time and attendance reports were not being properly completed. This has been corrected in most instances, but some salaried Probation Officers in Circuit Court and salaried employees in the Prosecuting Attorney's office note leave time taken on the time sheets but do not record actual time worked.

Failure to maintain adequate time records for employees who are entitled to receive leave benefits may make it impossible to determine if employees were working the hours required and to determine if they have vacation or sick leave balances available to use. Additionally, 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.

COUNTY AUDITOR
HARRISON COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

The County's procedures require time sheets to be completed in hours and state that no payroll warrant will be issued without a valid, complete attendance report. Procedures for completing time sheets to remit to the County Auditor should be followed by all employees, salaried and hourly. Accurate service records can then be maintained by the Auditor for all employees entitled to receive leave benefits. 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, Chapter 14)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

OVERDRAWN FUND BALANCES

The following fund balances were overdrawn by the following amounts as of December 31, 2007, due to the lack of internal controls and monitoring of these grant funds:

| | |
|-----------------------------------|----------|
| EMA Grant Homeland Security | \$10,669 |
| JABG Grant Prosecutor | 24,603 |
| JAG Grant 07-DCCAP-059 | 11,525 |
| Domestic Violence Grant 05-ST-022 | 1,645 |
| Health Terrorism Grant BPRS-130-4 | 15,590 |

The balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Counties, Chapter 1)

COUNTY AUDITOR
HARRISON COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 28, 2008, with Patricia A. Wolfe, Auditor; Carl L. Mathes, President of the County Council; and James Goldman, President of the Board of County Commissioners. The officials concurred with our audit findings.