

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

EXAMINATION REPORT  
OF  
HIGHWAY DEPARTMENT  
STARKE COUNTY, INDIANA  
January 1, 2007 to December 31, 2007



**FILED**  
02/27/2009



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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Highway Superintendent	Peter Stanojevic John Norris Steve Siddall	01-01-05 to 02-18-08 02-18-08 to 12-10-08 12-11-08 to 12-31-08
President of the County Council	Bruce Fingerhut Mark Smith	01-01-07 to 12-31-07 01-01-08 to 12-31-08
President of the Board of County Commissioners	Kevin Kroft	01-01-07 to 12-31-08



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF STARKE COUNTY

We have examined the records of the Highway Department 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 Examination Results and Comments. The financial transactions of this office are reflected in the Examination Report of Starke County for the year 2007.

STATE BOARD OF ACCOUNTS

July 24, 2008

HIGHWAY DEPARTMENT  
STARKE COUNTY  
EXAMINATION RESULTS AND COMMENTS

PUBLIC PURCHASE LAW

The Starke County Commissioners allowed the Highway Superintendent to purchase equipment without advertising for bids or obtaining quotes as required by statute. Equipment purchases were not officially approved in the Commissioners Board minutes. The cumulative cost of highway equipment purchased in 2007 was in excess of \$500,000.

A purchasing agent shall follow competitive bidding procedures in awarding a contract for supplies, unless another purchasing method is required or authorized by Indiana Code 5-22. [IC 5-22-7-1]

If the purchasing agent expects the purchase to be at least \$50,000 and not more than \$150,000, the purchasing agent may purchase supplies by inviting quotes from at least three persons known to deal in the lines or classes of supplies to be purchased. [IC 5-22-8-3] The purchasing agent shall mail an invitation to quote at least seven days before the time fixed for receiving quotes. [IC 5-22-8-3]

CONFLICT OF INTEREST – PETER STANOJEVIC

Mark Stanojevic, the son of former Highway Superintendent, Peter Stanojevic, was employed as summer help at the Highway Department in 2007. The Superintendent was directly involved in determining and approving the number of hours that appeared on his son's time card. A Uniform Conflict of Interest Disclosure Statement does not appear to have been filed.

Indiana Code 35-44-1-3 states in part:

"(a) A public servant who knowingly or intentionally: (1) has a pecuniary interest in; or (2) derives a profit from; a contract or purchase connected with an action by the governmental entity served by the public servant commits conflicts of interest, a Class D felony."

"(c) This section does not prohibit a public servant from having a pecuniary interest in or deriving a profit from a contract or purchase connected with the governmental entity served under any of the following conditions . . . (3) If the public servant . . . (B) makes a disclosure under subsection (d)(1) through (d)(6)."

"(d) A disclosure required by this section must: (1) be in writing; (2) describe the contract or purchase to be made by the governmental entity; (3) describe the pecuniary interest that the public servant has in the contract or purchase; (4) be affirmed under penalty of perjury; (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the governmental entity prior to final action on the contract or purchase; (6) be filed within fifteen (15) days after final action on the contract or purchase with: (A) the state board of accounts; and (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase . . ."

"(g) A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of: (1) the public servant; or (2) a dependent of the public servant who: (A) is under the direct or indirect administrative control of the public servant . . ."

HIGHWAY DEPARTMENT  
STARKE COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

"(k) As used in this section, 'dependent' means any of the following: (1) The spouse of a public servant. (2) A child, stepchild, or adoptee (as defined in Indiana Code 31-9-2-2) of a public servant who is: (A) unemancipated; and (B) less than eighteen (18) years of age. (3) Any individual more than one-half (1/2) of whose support is provided during a year by the public servant."

PERSONAL EXPENSES

Included in the highway expense claims were personal expenses of the former Highway Superintendent. Personal expenses identified include parts for his pickup truck and farmhouse totaling \$1,817.94. Also, a Highway mechanic provided some labor on County time to install parts on the former Superintendent's truck. We request reimbursement for the total amount of personal expenses paid on behalf of the former Superintendent. (See Summary, page 10)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental entity may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

CONFLICT OF INTEREST - MARK MILO

Mark Milo, County Commissioner, sold a backhoe to the County Highway Department using an out of state equipment dealer as an agent. The total purchase price of the backhoe was \$39,950. Upon purchase of the backhoe, the County paid RMB Equipment the entire purchase price of \$39,950. RMB subsequently wire transferred Mark Milo \$39,450 and kept \$500 as a sales commission.

Indiana Code 35-44-1-3 states in part:

"(a) A public servant who knowingly or intentionally: (1) has a pecuniary interest in; or (2) derives a profit from; a contract or purchase connected with an action by the governmental entity served by the public servant commits conflicts of interest, a Class D felony."

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"(g) A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of: (1) the public servant . . ."

HIGHWAY DEPARTMENT  
STARKE COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

DONATIONS

Through interviews we determined, donations from vendors were routinely solicited and used for a Starke County Highway Department Christmas party. The Starke County Board minutes did not indicate approval of the event or the acceptance of these donations. During 2007, checks were received in the name of Highway Superintendent. An accounting for the receipts and disbursements for the party was not presented for examination.

Governmental units which conduct fund raising events should have the express permission of the governing body for conducting the fund raiser as well as procedures in place concerning the internal controls and the responsibility of employees or officials. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

INTERNAL CONTROL - INVENTORY ITEMS

Our examination disclosed that internal control over equipment held at the Highway Department was inadequate to provide a reasonable assurance that items were safeguarded against loss. While performing an observation test, four chain saws, a lap top computer, a cell phone and a portable radio purchased by the former Superintendent were missing. Additionally, no records were maintained of parts used in the repair and maintenance of Highway equipment.

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 managements' 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 HIGHWAY EMPLOYEES' PURCHASE POLICY

The Starke County Highway Department had an unwritten employees' purchase policy for 2007. Highway employees were allowed to purchase auto parts from local businesses using the County's sales tax exemption number and any other discounts normally given to Starke County. Vendor invoices were to be paid at the time of sale by each Highway employee. Our examination discovered several claims that were paid by the County for the Highway Superintendent, Peter Stanojevic (see Examination Result entitled Personal Expenses) and one claim for the Highway Foreman, John Norris. It was determined by the County Commissioners that Mr. Norris' payment was a mistake and he reimbursed the County \$1,559.72 on December 7, 2007, for the cost of a transmission. The County Commissioners have voted to discontinue this policy. We did not determine the amount of uncharged state sales tax while the policy was in effect.

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 County Auditors, Chapter 18)

HIGHWAY DEPARTMENT  
STARKE COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

INTERNAL CONTROLS - UTILITY PERMITS

Controls for receipts generated by utility permits collected at the Highway Department are insufficient. On May 3, 2005, the County Commissioners transferred responsibility for the collection of utility permits from the Planning Commission to the Highway Department. The County Commissioners did not establish a numbering and recording system that would account for all permits issued. We were given two files of permits that were in no particular order and no numbering system. We suggest that permits be prenumbered, receipts be issued and recorded at the garage prior to a quietus being written and that the segregation of duties be established with the collection of these fees.

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)

UNDEPOSITED SCRAP RECEIPTS

The Starke County Highway Department regularly sold scrap metal to local salvage yards. The salvage yards usually paid for the scrap with cash. Interviews with a number of County Highway truck drivers indicated that they had received instructions to give the proceeds they received to the Highway Superintendent, Peter Stanojevic. Additionally, they indicated that they had witnessed other truck drivers giving scrap sale proceeds to the Superintendent.

Subsequent to, and as a result of, our interviews, an envelope was found in the Highway Department office that contained a number of receipts from the sale of scrap to the salvage yards in 2007. There was no cash in the envelope. Receipts found in this envelope plus receipts provided by the salvage yards indicated \$6,542.60 had been paid for County Highway scrap.

As a part of our examination, the County's records were extensively reviewed in an attempt to locate a receipt for the proceeds from the sale of Highway Department scrap. None of the proceeds from the sale of scrap in 2007 had been deposited to the County bank account.

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 . . ."

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

We request the County be reimbursed \$6,542.60 for undeposited scrap sale proceeds. (See Summary, page 10)

HIGHWAY DEPARTMENT  
STARKE COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

INTERNAL CONTROL - FUEL USAGE

Controls for the disbursing of gasoline and diesel fuel at the Highway garage are insufficient. The pump is accessed by a key and the following departments use the system: Highway, Sheriff, Emergency Medical Service, Health, Surveyor, and Plan Commission. Specific weaknesses are the accountability of the keys, use of overhead tanks offsite, and computer output. Keys are currently distributed to County employees by the Highway Superintendent, which has resulted in some keys being lost or unaccounted for. A system should be in place that results in a County employee signing for a key from the Auditors' office with an inventory of keys taken periodically. An offsite storage tank was located at the Highway Superintendent's farm and the Highway Foreman's residence for mowing crews and Highway trucks to use in those areas, but no usage records were maintained. Offsite storage tanks should not be used without a system in place that records gallons placed in the tanks and gallons taken out and by whom. The computer output of the main system at the Highway garage is limited since Highway personnel do not have a systems manual. A systems manual is necessary to effectively operate the system.

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)

AUDIT COSTS – MISSING FUNDS

The State of Indiana incurred additional audit fees in the investigation of the missing funds and equipment, false claims and improper purchases, and the allegations involving gasoline usage, Christmas party donations and payroll activities. The State of Indiana incurred additional audit fees in the amount of \$13,273.42 as a result of this investigation.

Audit costs incurred because of theft or shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

INSURANCE COVERAGE

Peter Stanojevic, former Highway Superintendent, was covered by an employee blanket bond for employee theft - per loss with Westfield Companies for \$300,000 for the period of August 16, 2006 to August 16, 2009.

HIGHWAY DEPARTMENT  
STARKE COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2008, with Michaelene Houston, County Auditor; Kevin Kroft, President of the Board of County Commissioners; Mark Milo, Commissioner; and Mark Smith, President of the County Council.

HIGHWAY DEPARTMENT  
STARKE COUNTY  
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Peter Stanojevic, former Highway Superintendent, (deceased):			
Personal Expenses, page 5	\$ 1,817.94	\$ -	\$ 1,817.94
Undeposited Scrap Receipts, page 7	<u>6,542.60</u>	<u>-</u>	<u>6,542.60</u>
Totals	<u>\$ 8,360.54</u>	<u>\$ -</u>	<u>\$ 8,360.54</u>

AFFIDAVIT

STATE OF INDIANA            )  
  )  
Jasper COUNTY            )

We, Donald R. Wegner and Dennis Hines, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the Highway Department, Starke County, Indiana, for the period from January 1, 2007 to December 31, 2007, is true and correct to the best of our knowledge and belief.

Donald R. Wegner

Dennis C. Hines  
Field Examiners

Subscribed and sworn to before me this 23 day of February 2009

Betty J. Lintner  
Notary Public

My Commission Expires: 11-12-15

County of Residence: Jasper

