

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

AUDIT REPORT

OF

COUNTY AUDITOR

HANCOCK COUNTY, INDIANA

January 1, 2008 to December 31, 2008



FILED

01/14/2010

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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Linda Grass Rosemary Melvin (Interim) Robin Lowder	01-01-08 to 06-22-09 06-23-09 to 07-01-09 07-02-09 to 12-31-11
President of the County Council	William Bolander	01-01-08 to 12-31-09
President of the Board of County Commissioners	Jack Heiden Derrick Towle	01-01-08 to 12-31-08 01-01-09 to 12-31-09



STATE OF INDIANA
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TO: THE OFFICIALS OF HANCOCK COUNTY

We have audited the records of the County Auditor for the period from January 1, 2008 to December 31, 2008, 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 Hancock County for the year 2008.

STATE BOARD OF ACCOUNTS

December 21, 2009

COUNTY AUDITOR
HANCOCK COUNTY
AUDIT RESULTS AND COMMENTS

CONFLICT OF INTEREST

The former Auditor, Linda Grass, is the owner of The Rookie Shop, a vendor located in Robinson, Illinois. The former Auditor filed a Uniform Conflict of Interest Disclosure Statement on December 28, 2007, with the Clerk of the Circuit Court noting her relationship with The Rookie Shop. The disclosure was submitted as a "single transaction" and further stated that the Auditor will not be purchasing from The Rookie Shop. However, we noted numerous transactions from The Rookie Shop paid from various County departments including the Auditor's office. The total amount the County paid to The Rookie Shop in 2008 and 2009 was \$34,908 and \$5,915, respectively.

The Uniform Conflict of Interest Disclosure Statement filed for The Rookie Shop on December 28, 2007, was not signed or approved by any County governmental officials other than the former County Auditor.

IC 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 conflict 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: (A) is an elected public servant. . . . and (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; or (B) receives a contract or purchase order that is reviewed, approved, or directly or indirectly administered by the public servant. . . ."

INTERNAL CONTROLS OVER PURCHASING AND INVENTORY

The internal controls over supplies purchased from and payments made to one particular out-of-state vendor were not sufficient.

COUNTY AUDITOR
HANCOCK COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

The former Auditor purchased various supplies from an out-of-state vendor, A+ Printing and Graphics, in Robinson, Illinois. The former Auditor was acquainted with the owner of A+ Printing and Graphics. The owner of A+ Printing and Graphics was the former owner of The Rookie Shop, who sold that business to the former Auditor in 2007. This vendor maintains the same street address as The Rookie Shop. While Linda Grass was serving as the Auditor, the County purchased and paid for items from A+ Printing and Graphics totaling \$18,918 in 2008 and \$34,383 in 2009.

The supplies included binders, letterhead, business cards, and miscellaneous office supplies. The former Auditor signed all accounts payable vouchers certifying that attached invoices were true and correct and that the materials itemized thereon for which charges were made were ordered and received. However, because the Auditor's office purchased so many of the items in bulk, the vendor stored the bulk supplies for the Auditor and would make arrangements to bring the items to the County as they were needed. No one in the Auditor's office tracked the items purchased and used, nor maintained an inventory of items held by the vendor.

For example, during the audit period the former Auditor purchased 1,220 three ring binders from A+ Printing and Graphics. These binders were ordered in bulk and stored by the vendor just as the numerous supplies mentioned above. An inventory of these binders was taken during the audit. The Auditor's Office could only account for 36 of these binders purchased from A+ Printing and Graphics. No evidence was presented for audit that the other 1,184 binders were received and put into use by any County office. Because the former Auditor did not maintain an inventory of items purchased and used, or maintained an inventory of items held by the vendor, we were unable to establish if the amount of binders ordered were actually received by the Auditor's office.

By not tracking the items purchased and stored by the vendor, the Auditor's Office could not determine at any point in time if supplies were needed or not. This could have led to supplies being purchased when sufficient inventory may have already existed. Also, not tracking the supplies inventory could have allowed County owned materials to become lost, stolen, misplaced, or misused.

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 Auditors of Indiana, Chapter 14)

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 8)

IC 5-11-10-1.6(c) states in part: "The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . . (2) the invoice or bill is approved by the officer or person receiving the goods and services."

COUNTY AUDITOR
HANCOCK COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

QUESTIONED EXPENSES

Former Auditor, Linda Grass, was reimbursed for the lodging expenses of a financial consultant who attended a conference in September 2008. Ms. Grass paid for the lodging expenses for the consultant and all of the County personnel who attended the conference with her personal credit card. The consultant was not authorized by the Board of County Commissioners to attend the conference and documentation indicating why the lodging would be an expense of the County was not presented for audit. The amount Ms. Grass was reimbursed for the consultant's lodging expenses was \$199.36.

We have requested former Auditor Linda Grass to provide documentation to support the County's obligation to pay for the consultant's lodging while attending this conference (e.g., properly entered purchase of services contract between the vendor and County) or reimburse the County the amount she received, \$199.36.

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 of Indiana, Chapter 14)

PUBLIC WORKS PROJECT

From documentation presented for audit, repairs were necessary to the exterior of the Courthouse in 2008. We were presented with a sheet of paper with three quotes on it purportedly from Barger Contracting. The Courthouse repairs and related quotes were separated into three different projects with a quoted price "not to exceed \$50,000.00" for each. The first project (Project A) was described as tuck pointing of mortar joints. The second project (Project B) was described as removing window caulk to every exterior window. The third project (Project C) was for the repair of all exterior gutters.

The minutes of the Board of County Commissioners meeting held August 4, 2008, presented for audit, as transcribed by the former Auditor, contain a note at the bottom of page 73 that the Commissioners approved the quotes. However, Commissioners have stated they did not approve any such quotes from Barger Contracting. Additionally, draft copies of the minutes the Commissioners received shortly after the meeting by email from the former Auditor did not include the paragraph making note of their approval of the quotes. An approved contract for this work was not presented for audit. Also, there was no evidence presented for audit that sealed bids were requested or that quotes other than Barger Contracting's were solicited.

The former Auditor and the owner of Barger Contracting are cousins. The former Auditor filed a Uniform Conflict of Interest Disclosure Statement on August 4, 2008, with the Clerk of the Circuit Court. In that disclosure, the former Auditor affirmed, under the penalty of perjury, that she had ". . . no financial interest." However, on June 17, 2009, the State of Indiana filed an Affidavit for Probable Cause in Hancock County Superior Court (cause number 30D01-0906-FC-124) which states the former County Auditor "had deposited into her personal . . . checking account \$54,500 in cashier's checks from JIM BARGER and BARGER CONTRACTING." The Affidavit also noted "withdrawals from BARGER'S bank account for the purchase of the cashier's checks from his bank."

COUNTY AUDITOR
HANCOCK COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

The total paid to Barger Contracting on the above described projects was \$177,605.45 as follows:

	<u>Total Paid</u>	<u>Project Limit</u>	<u>Underspent (Overspent)</u>
Project A	\$ 77,605.45	\$ 50,000.00	\$ (27,605.45)
Project B	49,000.00	50,000.00	1,000.00
Project C	<u>51,000.00</u>	<u>50,000.00</u>	<u>(1,000.00)</u>
Totals	<u>\$ 177,605.45</u>		<u>\$ (27,605.45)</u>

Project A included two payments that we considered to be part of the original quote as the description on the invoices were for basically the same work as described in the quote. However, there were no change orders presented for audit.

In addition to the Courthouse project, Barger Contracting performed other miscellaneous repairs and maintenance to other County owned facilities in 2008 totaling \$91,237.19. These appeared to be smaller projects for which quotes or bids would not have been required (e.g. leaking toilet in the Prosecutor's Office, removing interior windows in the Auditor's office, leaking pipe in Annex basement, etc.). For each of these repairs, former Auditor Linda Grass approved each claim for payment and included each payment on the Account Payable Docket for approval by the Board of County Commissioners. No other County official besides former Auditor Linda Grass approved any of these miscellaneous repairs.

The total amount the County paid to Barger Contracting for all repairs in 2008 and 2009 was \$268,842.64 and \$6,850.00, respectively.

IC 36-1-12-4(a) states in part:

"This section applies whenever the cost of a public work project will be: (1) at least seventy-five thousand dollars (\$75,000) in: (A) a consolidated city or second class city; or (B) a county containing a consolidated city or second class city; or (c) a regional water or sewage district established under IC 13-26; or (2) at least fifty thousand dollars (\$50,000) in a political subdivision or an agency not described in subdivision (1)."

Hancock County does not meet the criteria in subdivision (1).

IC 36-1-12-4(b) states in part:

"The board must comply with the following procedure: (1) The board shall prepare general plans and specifications describing the kind of public work required, but shall avoid specifications which might unduly limit competition. . . . (2) The board shall file the plans and specifications in a place reasonably accessible to the public, which shall be specified in the notice required by subdivision (3). (3) Upon the filing of the plans and specifications, the board shall publish notice in accordance with IC 5-3-1 calling for sealed proposals for the public work needed. . . . (8) Except as provided in subsection (c), the board shall: (A) award the contract for public work or improvements to the lowest responsible and responsive bidder; or (B) reject all bids submitted."

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(Continued)

IC 36-1-12-4.7 offers a procedure whereby the County may accept quotes for public works projects that cost less than \$50,000. It states in part:

- "(a) This section applies whenever a public work project is estimated to cost:
- (1) at least twenty-five thousand dollars (\$25,000) and less than one hundred thousand dollars (\$100,000) in: . . . (B) a county containing a consolidated city or second class city . . . or
 - (2) at least twenty-five thousand dollars (\$25,000) and less than fifty thousand dollars (\$50,000) in a political subdivision or agency not described in subdivision (1).
- (b) The board must proceed under the following provisions:
- (1) The board shall invite quotes from at least three (3) persons known to deal in the class of work proposed to be done by mailing them a notice stating that plans and specifications are on file in a specified office. The notice must be mailed not less than seven (7) days before the time fixed for receiving quotes.
 - (2) The board may not require a person to submit a quote before the meeting at which quotes are to be received. The meeting for receiving quotes must be open to the public. All quotes received shall be opened publicly and read aloud at the time and place designated and not before.
 - (3) The board shall award the contract for the public work to the lowest responsible and responsive quoter.
 - (4) The board may reject all quotes submitted."

Hancock County does not meet the criteria in IC 36-1-12-4.7(a)(1); therefore, the County could enter into a contract through the quote process specified above for projects costing \$25,000 but less than \$50,000.

DISBURSEMENTS FROM THE E911 FEE FUND

The County established a separate fund to account for the financial activity of E911 fees. Indiana Codes 36-8-16 and 36-8-16.5 establish guidelines for the expenditure of these fees. During our audit of these fees, we found questionable expenditures as summarized in the following categories:

Building maintenance	\$	2,283
Computer software/hardware		35,290
Supplies		1,859
Training		2,270
Unappropriated		<u>9,244</u>
Total	\$	<u>50,946</u>

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(Continued)

The questioned expenditures in building maintenance included membership dues, newspaper subscriptions, bottled water, and utilities for the Emergency Operations Center (EOC) building. Computer Software/Hardware expenditures included software for field incident reporting and jail management. Supplies included general office supplies, cleaning supplies, business cards, stationary, and a directory. Training expenditures included the logo design for the EOC, laminator, cleaning supplies, magazine subscription, and APCO membership for 10 employees. Unappropriated expenditures included fuel for the generator at the EOC, management development assistance (mission statement, core value identifications and definitions related to the purpose and function of the EOC), and \$8,120 for uniforms purchased from The Rookie Shop.

IC 36-8-16-14(a) states:

"The emergency telephone system fees shall be used only to pay for:

- (1) the lease, purchase, or maintenance of enhanced emergency telephone equipment, including necessary computer hardware, software, and data base provisioning;
- (2) the rates associated with the service suppliers' enhanced emergency telephone system network services;
- (3) the personnel expenses of the emergency telephone system;
- (4) the lease, purchase, construction, or maintenance of voice and data communications equipment, communications infrastructure, or other information technology necessary to provide emergency response services under authority of the unit imposing the fee; and
- (5) an emergency telephone notification system under IC 36-8-21.

The legislative body of the unit may appropriate money in the fund only for such an expenditure."

IC 36-8-16.5-41(a) states:

"A PSAP shall use its distribution made under section 39 of this chapter for the lease, purchase, or maintenance of wireless enhanced emergency telephone equipment, including:

- (1) necessary computer hardware, software, and data base equipment;
- (2) personnel expense and training;
- (3) the provision of wireless enhanced emergency service; or
- (4) educating consumers about the operations, limitations, role, and responsible use of enhanced 911 service."

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AUDIT RESULTS AND COMMENTS
(Continued)

APPROPRIATIONS

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

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
Debt Service	2008	\$ 563
Debt Payment	2008	562
County Welfare Family and Children	2008	318,842

IC 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."

SHERIFF DRUG SEIZURE FUND

Monies seized and forfeited by court order from defendants in criminal actions were receipted into the Sheriff Drug Seizure Fund rather than receipting the monies into the County General Fund. Subsequent to the audit period, County officials transferred the monies to the County General Fund.

IC 34-24-1-4(d) states:

"If the court enters judgment in favor of the state, or the state and a unit (if appropriate), the court shall, subject to section 5 of this chapter:

- (1) determine the amount of law enforcement costs; and
- (2) order that:
 - (A) the property, if it is not money or real property, be sold under section 6 of this chapter, by the sheriff of the county in which the property was seized, and if the property is a vehicle, this sale must occur after any period of use specified in subsection (c);
 - (B) the property, if it is real property, be sold in the same manner as real property is sold on execution under IC 34-55-6;
 - (C) the proceeds of the sale or the money be:
 - (i) deposited in the general fund of the state, or the unit that employed the law enforcement officers that seized the property; or

COUNTY AUDITOR
HANCOCK COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

- (ii) deposited in the general fund of a unit if the property was seized by a local law enforcement agency of the unit for an offense, an attempted offense, or a conspiracy to commit an offense under IC 35-47 as part of or in furtherance of an act of terrorism; and

(D) any excess in value of the proceeds or the money over the law enforcement costs be forfeited and transferred to the treasurer of state for deposit in the common school fund."

ORDINANCES AND RESOLUTIONS

We noted a payment for overnight travel that was not in compliance with the County's approved travel policy. In one instance, overnight travel was paid for an employee staying in Indianapolis for a conference. The total paid for lodging in this case was \$225. The County's travel policy as approved by County Ordinance 1995-5G, amended with Ordinance 1998-9C, states that when County officials and employees are attending called or authorized meetings more than 50 miles from the Hancock County Courthouse, lodging expenses will be reimbursed. Per internet mapping services, the distance from the courthouse to the conference was only 28 miles.

We also noted multiple payments for meal reimbursements that were not in compliance with the County's approved travel policy. In several instances, employees were reimbursed for meals while attending a meeting that was not more than 50 miles from the Hancock County Courthouse. Also, there were several occasions where one employee was reimbursed for meals of several persons, without providing itemized meal receipts to designate how many people were included, and how each of these individual's meals is eligible for reimbursement under the County's policies.

The County's travel policy states that when County officials and employees are attending a meeting authorized by the Hancock County Commissioners that is more than 50 miles from the Hancock County Courthouse, an allowance of \$6, \$8, and \$12, will be paid for breakfast, lunch, and dinner, respectively. A similar comment appeared in prior Report B33309.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

ANNUAL FINANCIAL REPORT/CONDITION OF RECORDS

We noted errors in the Annual Financial Report for the year ended December 31, 2008. These errors consisted mainly of investment activities not properly reported, beginning and ending balances not agreeing with the ledger, and financial activity of the various departments not being reported. A similar comment appeared in prior Report B33309.

Pursuant to Indiana Code 5-11-1-4, the county auditor is required to prepare and file an Annual Financial Report with the State Board of Accounts. The report is prepared on forms furnished by this board and must be filed on or before January 31 after the close of the calendar year. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 6)

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AUDIT RESULTS AND COMMENTS
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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 of Indiana, Chapter 14)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

OFFICIAL BOND COVERAGE

Documentation was not presented for audit that former Auditor Linda Grass had an individual surety bond covering the period January 1, 2008 to August 31, 2008. An official bond in the amount of \$15,000 was recorded with the County Recorder on September 15, 2009, for the period September 1, 2008 to September 1, 2009.

IC 5-4-1-18(a) states in part:

" . . . the following city, town, county, or township officers and employees shall file an individual surety bond: . . .

- (3) Auditors, treasurers, recorders, surveyors, sheriffs, coroners, assessors, and clerks. . . ."

For the audit period IC 5-4-1-18(c) states in part:

". . . County auditors shall file bonds in amounts of not less than fifteen thousand dollars (\$15,000), as fixed by the fiscal body of the county. . . ."

IC 5-4-1-19 states:

"The bonds prescribed by IC 5-4-1-18 cover the faithful performance of the duties of the officer or employee, including the duty to comply with IC 35-44-1-2 and the duty to account properly for all monies and property received by virtue of his position or employment."

SALARY PAID FROM AUDITOR'S TRANSFER FEE FUND

The former Auditor authorized and paid a part-time County employee to perform various projects from time to time. The hourly salary of \$12.00/hr. was paid to the part-time employee out of the Auditor's Transfer Fee Fund, a fund which was established by statute as described below and by local Ordinance 2003-9-C. Disbursements from this fund may only be used for the maintenance of the County's plat books. The plat book information is a function of the Auditor's office and maintaining these records is performed daily. A portion of one full-time employee's salary is paid from this fund as this person's duties involve posting the plat books.

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HANCOCK COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

The part-time employee in question was never observed working in the Auditor's Office on the plat book information. We inquired of Auditor's Office personnel who indicated the part-time employee was never involved in the day to day operations of the office, but rather performed miscellaneous jobs for the former County Auditor such as moving filing cabinets or cleaning the Courthouse Annex basement.

The part-time employee's time sheet information indicated a total of 164 hours worked between January 2, 2008 and June 15, 2008, and gross total pay of \$1,968.00. The 164 hours paid included 39 hours on various Saturdays when County offices were closed for business.

The part-time employee only signed 1 of the 10 time sheets submitted for payment. The former Auditor signed 1 time sheet and used a rubber stamped signature for the other time sheets.

IC 36-2-9-18(d)(2) states in part:

"The auditor shall place revenue received under this subsection in a dedicated fund for use in maintaining plat books."

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 14)

COUNTY AUDITOR
HANCOCK COUNTY
EXIT CONFERENCE

The contents of this report were discussed on December 21, 2009, with Derek Towle, President of the Board of County Commissioners; William Bolander, President of the County Council; and Robin Lowder, Auditor. The officials concurred with our audit findings.

The contents of this report were discussed on December 23, 2009, with Linda Glass, former Auditor.