

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

AUDIT REPORT

OF

MEMORIAL OPERA HOUSE

PORTER COUNTY, INDIANA

January 1, 2011 to December 31, 2011



**FILED**  
09/17/2012



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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Memorial Opera House Director	Brian Schafer	01-01-11 to 12-31-12
President of the County Council	Daniel Whitten	01-01-11 to 12-31-12
President of the Board of County Commissioners	John Evans	01-01-11 to 12-31-12



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TO: THE OFFICIALS OF PORTER COUNTY

We have audited the records of the Memorial Opera House for the period from January 1, 2011 to December 31, 2011, 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 2011.

STATE BOARD OF ACCOUNTS

July 12, 2012

MEMORIAL OPERA HOUSE  
PORTER COUNTY  
AUDIT RESULTS AND COMMENTS

**PUBLIC PURCHASES**

Various audio equipment items were purchased on May 19, 2011, for \$150,145. The vendor prepared and submitted three separate invoices for three phases of the purchase and installation of the equipment. All three invoices were paid to the vendor on the same date. The audio upgrade was not bid and a contract was not awarded.

A purchasing agent shall follow competitive bidding procedures in awarding a contract for supplies, unless another purchasing method is required or authorized by IC 5-22-7-1. (Accounting and Uniform Compliance Guidelines for Counties of Indiana, Chapter 8)

Purchase requirements may not be artificially divided so as to constitute a small purchase under IC 5-22-8-1. (Accounting and Uniform Compliance Guidelines for Counties of Indiana, Chapter 8)

A contract must be awarded with reasonable promptness by written notice to the lowest responsible and responsive bidder [IC 5-22-7-8]. (Accounting and Uniform Compliance Guidelines for Counties of Indiana, Chapter 8)

Indiana Code 5-22-8-3 states:

"(a) This section applies only if the purchasing agent expects the purchase to be:

- (1) at least fifty thousand dollars (\$50,000); and
- (2) not more than one hundred fifty thousand dollars (\$150,000).

(b) A purchasing agent may purchase supplies under this section by inviting quotes from at least three (3) persons known to deal in the lines or classes of supplies to be purchased.

(c) The purchasing agent shall mail an invitation to quote to the persons described in subsection (b) at least seven (7) days before the time fixed for receiving quotes.

(d) If the purchasing agent receives a satisfactory quote, the purchasing agent shall award a contract to the lowest responsible and responsive offeror for each line or class of supplies required.

(e) The purchasing agent may reject all quotes.

(f) If the purchasing agent does not receive a quote from a responsible and responsive offeror, the purchasing agent may purchase the supplies under IC 5-22-10-10."

Indiana Code 5-22-7-2 states:

"(a) A purchasing agent shall issue an invitation for bids.

(b) An invitation for bids must include the following:

- (1) A purchase description.
- (2) All contractual terms and conditions that apply to the purchase.

MEMORIAL OPERA HOUSE  
PORTER COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

- (3) A statement of the evaluation criteria that will be used, including any of the following:
  - (A) Inspection.
  - (B) Testing.
  - (C) Quality.
  - (D) Workmanship.
  - (E) Delivery.
  - (F) Suitability for a particular purpose.
  - (G) The requirement imposed under IC 5-22-3-5.
- (4) The time and place for opening the bids.
- (5) A statement concerning whether the bid must be accompanied by a certified check or other evidence of financial responsibility that may be imposed in accordance with rules or policies of the governmental body.
- (6) A statement concerning the conditions under which a bid may be canceled or rejected in whole or in part as specified under IC 5-22-18-2."

***CONFLICT OF INTEREST***

The County Commissioners entered into a contract with Next Level Productions, Inc., to operate the Memorial Opera House. Next Level Productions is partly owned by Brian Schafer, who is on site to manage the day to day operations. In addition to payment for services, the County Commissioners, on occasion, reimbursed Next Level Productions for additional expenses incurred by Next Level Productions. We found reimbursements totaling \$2,462 for security expenses and alcohol purchases that Next Level Productions incurred on behalf of the Memorial Opera House. A Conflict of Interest Disclosure Statement was not filed by Brian Schafer.

A conflict of interest must be disclosed as follows:

- 1. A consultant shall file a conflict of interest disclosure if the consultant has a conflict of interest under IC 5-16-11-5.5.
- 2. The disclosure must describe the conflict of interest.
- 3. The consultant shall file the disclosure within ten (10) days of the earlier of the following events:
  - a. The closing day for receipt of bids.
  - b. The award of the contract.

MEMORIAL OPERA HOUSE  
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AUDIT RESULTS AND COMMENTS  
(Continued)

4. The consultant shall file the disclosure required by IC 5-16-11-6 with the governing board, if the consultant contracts with the political subdivision. [IC 5-16-11-7]
5. The consultant shall make the disclosure required by IC 5-16-11-6 under affirmation. [IC 5-16-11-6,7,8] (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 4)

***ERRORS ON CLAIMS***

1. We found an instance where a gift card was purchased from Memorial Opera House Funds to an individual in lieu of monetary compensation.
2. \$3,831 was paid to an individual for contractual labor for marketing and sales work. A copy of the contract could not be located for review.

Indiana Code 5-11-10-1.6 (c) states:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

***RECEIPT ISSUANCE***

The computer software program used at the Memorial Opera House does not track all sources of revenue including donations and gift card sales. Lack of adequate controls and proper reporting of revenue sources may inhibit management over the Opera House from making sound financial decisions. Also, because individual receipts are not issued for all sources of revenue the accountability for the cash could not be verified.

MEMORIAL OPERA HOUSE  
PORTER COUNTY  
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(Continued)

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

***LEDGER NOT MAINTAINED***

The Memorial Opera House implemented a computerized accounting system, Keystone, in May 2008. The system has the capability to generate a general ledger and various other financial reports. Historically, we have requested from the Manager the Ledger of Receipts, Disbursements and Balances (General Form 358). A Ledger of Receipts, Disbursements and Balances was not maintained for 2011 and the Manager failed to produce a ledger for the 2011 audit.

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 Counties of Indiana, Chapter 1)

MEMORIAL OPERA HOUSE  
PORTER COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on July 12, 2012, with Brian Schafer, Memorial Opera House Director, and John Evans, President of the Board of County Commissioners. The Official Response has been made a part of this report and may be found on pages 9 and 10.



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Thursday, July 26, 2012

Bruce Hartman, CPA  
State Examiner  
State Board of Accounts  
155 Indiana Avenue Suite 305  
Valparaiso, IN 46383

Re: Official Response: Memorial Opera House 2011 Audit

To Whom It May Concern:

Please allow this document to serve as official response to the most recent State Board of Accounts audit performed on the Porter County Memorial Opera House.

The audit noted the purchase of "various audio equipment items...May 19, 2011...The audio upgrade was not bid and a contract was not awarded." The upgrade of the Opera House audio system began two years prior and spanned over the course of several years and was done with the best of intentions and ultimately saving the County a significant amount of money. The project was presented several times in public meetings before the Porter County Board of Commissioners and ultimately approved at each stage of the installation. In addition, the work was performed by industry professionals with many years of experience as opposed to hiring a consultant to perform a study and ultimately cost more money.

These audio upgrades have afforded the Memorial Opera House the opportunity to provide top quality entertainment including national touring concerts, musical theater, limited release and independent film and more. This has lead to a dramatic increase in scheduled events at the Memorial Opera House over recent years which results in additional revenue to keep the doors open. If Porter County Government wishes the Memorial Opera House to remain self-sustaining without the assistance of tax revenue, Elected Officials must realize the need for continual maintenance and upkeep to a historic venue nearly 120 years old.

The audit also noted a "conflict of interest". Again, the contract between Next Level Productions, LLC and Porter County has been executed publically at the Board of Commissioners meeting annually. Additionally, individual County departments do not have the ability to generate checks on demand. Such requests must be submitted to the County Auditor's Office for production which typically takes anywhere from 1-2 weeks.

Next Level Productions, LLC provided the funds to purchase “cash on delivery” items that included beer from Northcoast Distributing and security officers for concert events. In the State of Indiana, beer cannot be purchased on credit – therefore requiring cash on delivery. I was never instructed nor was knowledgeable that a Conflict of Interest Disclosure Statement existed or needed to be filed.

It was noted that “we found an instance where a gift card was purchased from Memorial Opera House Funds to an individual in lieu of monetary compensation.” Much of the work done at Memorial Opera House, specifically on theater productions, is done on a volunteer basis by a countless number of volunteers. Without their help and support, these productions would not be possible.

It was noted in the audit that donation and gift card sales are not tracked through computer software. The Memorial Opera House ticketing system does not offer a gift card program. This forced Management to look elsewhere for a gift card program to offer customers. The computer program used to track gift cards does not integrate into the ticketing software because they are produced by two separate companies. Auditors would like to see everything run thru the ticketing software but unfortunately, this is something beyond the control of Memorial Opera House Management.

The comment was also made that “individual receipts are not issued for all sources of revenue [and] the accountability for the cash could not be verified”. If a transaction such as a donation or cash purchase of a gift card is made, a handwritten receipt from the approved State Board of Accounts receipt book is made and given to the customer. The Auditors noted one instance of a nominal gift card purchase that could not be located in the receipt book. I am confident this was simply an error in our Box Office staff on this occasion. Memorial Opera House employees who handle Box Office transactions are trained to write receipts when one is not provided through the ticketing program.

It was noted that a ledger of accounts was not maintained. The Memorial Opera House as well as the Porter County Expo Center utilize the same State Board of Accounts approved accounting software and have for a number of years. I attempted to generate every possible report the system could provide to satisfy what the Auditors were seeking and none seemed to show what was needed. I am confident all revenue and expense activity is properly recorded for the year.

Respectfully Submitted,



Brian Schafer  
Business Director & Executive Producer  
Memorial Opera House

CC: Porter County Board of Commissioners  
John Evans, President  
Nancy Adams  
Carole Knoblock