

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

AUDIT REPORT

OF

COUNTY TREASURER

LAPORTE COUNTY, INDIANA

January 1, 2012 to December 31, 2012



**FILED**  
12/12/2013



TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
County Officials .....	2
Transmittal Letter .....	3
Audit Results and Comments:	
Internal Controls Over Financial Transactions and Reporting .....	4-5
Internal Controls - Excess (Surplus) Tax.....	5
Receipt Postings for Electronic Fund Transfers .....	5-6
Cash and Checks Not Deposited Intact .....	6
Prescribed Forms - Treasurer's Daily Balance of Cash and Depositories .....	6
Bank Account Reconciliations .....	7
Official Bond .....	7-8
Treasurer's Supplemental CAR-1 .....	8
Exit Conference.....	9

COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Nancy Hawkins	01-01-09 to 12-31-16
President of the County Council	Matthew Bernacchi Mark Yagelski	01-01-12 to 12-31-12 01-01-13 to 12-31-13
President of the Board of County Commissioners	Kenneth Layton Willie Milsap	01-01-12 to 12-31-12 01-01-13 to 12-31-13



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

TO: THE OFFICIALS OF LAPORTE COUNTY

We have audited the records of the County Treasurer for the period from January 1, 2012 to December 31, 2012, 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 not accurately reflected in the Annual Report of LaPorte County for the year 2012.

STATE BOARD OF ACCOUNTS

November 14, 2013

COUNTY TREASURER  
LAPORTE COUNTY  
AUDIT RESULTS AND COMMENTS

***INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted several deficiencies in the internal control system of the County related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Operation of Controls: For control activities to be effective, they need to be established and then timely implemented. These control activities should be selected and developed at various levels of the County to reduce risks to the achievement of financial reporting objectives. The County has not effectively managed a control environment that assures financial transactions are being timely and properly recorded. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.
2. Monitoring of Controls: Effective internal control over financial reporting requires the County Board of Commissioners to monitor and assess the quality of the County's system of internal control. The County Board of Commissioners has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the County at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the County has no process to identify or communicate corrective actions to improve controls.
3. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the County's audited financial statement and then determining how those identified risks should be managed. The County has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements, including notes to the financial statement.

Six transactions were found to be either not recorded or misrecorded during 2012. Each of these transactions were in excess of \$1,400,000. Some of these errors were not detected by the County until June 2013.

The Treasurer completed a reconciliation of some bank accounts to the Treasurer's Cash Book as of December 31, 2012, in June 2013. This reconciliation contained numerous reconciling items, some unidentified, totaling \$34,327,611, uncorrected to the Treasurer's Cash Book from 2009, 2010, 2011, and 2012. As of November 14, 2013, no reconciliation of all bank accounts to the entire Auditor's Funds Ledger has been completed by the County.

Due to the deficiencies cited above, that we consider to be material weaknesses, and because we were not able to apply other auditing procedures to satisfy ourselves as to whether the financial statement is fairly stated, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this financial statement.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

COUNTY TREASURER  
LAPORTE 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 Treasurers of Indiana, Chapter 10)

***INTERNAL CONTROLS - EXCESS (SURPLUS) TAX***

Excess (Surplus) Tax collected by the Treasurer is not being transferred to the Auditor. The Excess (Surplus) Tax Fund accumulates property tax money received that was in excess of amounts owed from taxpayers. This money is transferred from the Treasurer to the Auditor and held in a fund on the Auditor's records until refunded to the taxpayer. At December 31, 2012, and June 30, 2013, the cash balances of the Excess (Surplus) Tax Fund - 1201, were (\$2,470,738), and (\$4,910,826), respectively. The Treasurer has not transferred to the Auditor these overpayments to be recorded in the Excess (Surplus) Tax Fund.

Check 183328 for \$1,039.66 was issued on August 10, 2012, in error as a refund. This check was to be voided but was not properly recorded in the fund. A correction for this error has not been recorded. Had the control been posted currently, and a reconciliation performed between the Treasurer's Subsidiary Ledger of Excess (Surplus) Tax payments received and the Auditor's control ledger, Fund 1201, this misposting would have been caught, corrected, and future mispostings could have been avoided.

Indiana Code 6-1.1-26-6(a) states in part:

"Notwithstanding the other provisions of this chapter, each county treasurer shall place the portion of a tax or special assessment payment which exceeds the amount actually due, as shown by the tax duplicate or special assessment records, in a special fund to be known as the 'surplus tax fund'."

At all times, the manual and 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 Treasurers of Indiana, Chapter 10)

***RECEIPT POSTINGS FOR ELECTRONIC FUND TRANSFERS***

Electronic Fund Transfers of the December 2012 excise tax, some medicare payments for the EMS Department, and two grants received from the State of Indiana, totaling \$503,331 were not posted to the Treasurer's Cash Book nor the Auditor's Funds Ledger until 2013.

COUNTY TREASURER  
LAPORTE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 10)

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 County Treasurers of Indiana, Chapter 10)

***CASH AND CHECKS NOT DEPOSITED INTACT***

We found instances where cash receipted was not deposited in the same form as the collections. Checks and cash deposited by the Treasurer's Office did not match the checks and cash receipted by the Auditor's Office.

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."

***PRESCRIBED FORMS - TREASURER'S DAILY BALANCE OF CASH AND DEPOSITORIES***

The Indiana State Board of Accounts is responsible for prescribing and/or approving the accounting forms/records for all governmental units. The Treasurer did not use the prescribed form Treasurer's Daily Balance of Cash and Depositories (Cash Book) in a timely manner nor was it correctly used.

Checks totaling \$136,842.03 written on November 20, 2012, to correct property tax distributions to County funds were not receipted or deposited until January 4, 2013, and were not posted to the Treasurer's Cash Book until June 19, 2013.

Multiple Treasurer's Cash Books are open at December 31, 2012.

The Cash Book was not used daily. In some instances up to eight days were recorded on one form.

The Cash Book is not maintained as prescribed, it is used in a hybrid form with the Auditor's Funds Ledger.

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)

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 Treasurers of Indiana, Chapter 10)

COUNTY TREASURER  
LAPORTE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

***BANK ACCOUNT RECONCILIATIONS***

The Treasurer's Office reconciles the bank balances of some bank accounts and investments to the Treasurer's Daily Balance of Cash and Depository's (Cash Book). For December 31, 2012, depository reconciliations of these bank balances to the Cash Book were 5 months delinquent. At times during 2012, the depository reconciliations of these bank balances to the Cash Book were 12 months delinquent. The depository reconciliation for December 31, 2012, completed in June 2013, carried adjustments, corrections, and unidentified items, some dating from 2009, of \$34,327,611.

During 2012, the Treasurer was manually posting transactions of the Auditor's Office onto a Treasurer's "Fin" Low System. This record is in effect a copy of the Auditor's Funds Ledger. Numerous material 2012 transactions were not recorded on the Auditor's Funds Ledger or the Treasurer's "Fin" Low System until 2013.

No reconciliation between the bank balances or the Cash Book to the Treasurers "Fin" Low System or the Auditor's Funds Ledger is being performed.

Corrections for 2012, and prior years, were found and posted to the Auditor's Funds Ledger and the Treasurer's Cash Book as late as September 2013.

Because the reconciliations were 5 months delinquent no employee or official of LaPorte County was comparing the depository balances to the Treasurer's Cash Book, to the Treasurer's "Fin" Low System or the Auditor's Funds Ledger on a timely basis during 2012.

The County does not have any internal controls or procedures in place to ensure that the fund cash balances, receipts, and disbursements are materially correct on the Auditor's Funds Ledger during 2012.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

***OFFICIAL BOND***

The Treasurer, Nancy Hawkins, did not obtain an individual surety bond.

Indiana Code 5-4-1-18 states in part:

"(a) Except as provided in subsection (b), the following city, town, county, or township officers and employees shall file an individual surety bond:

- (1) City judges, controllers, clerks, and clerk-treasurers.
- (2) Town judges and clerk-treasurers.
- (3) Auditors, treasurers, recorders, surveyors, sheriffs, coroners, assessors, and clerks.
- (4) Township trustees.
- (5) Those employees directed to file an individual bond by the fiscal body of a city, town, or county.

COUNTY TREASURER  
LAPORTE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

(6) Township assessors (if any).

(b) The fiscal body of a city, town, county, or township may by ordinance authorize the purchase of a blanket bond or a crime insurance policy endorsed to include faithful performance to cover the faithful performance of all employees, commission members, and persons acting on behalf of the local government unit, including those officers described in subsection (a).

(c) Except as provided in subsections (h) and (i), the fiscal bodies of the respective units shall fix the amount of the bond of city controllers, city clerk-treasurers, town clerk-treasurers, Barrett Law fund custodians, county treasurers, county sheriffs, circuit court clerks, township trustees, and conservancy district financial clerks as follows:

(1) The amount must equal thirty thousand dollars (\$30,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2).

(2) The amount may not be less than thirty thousand dollars (\$30,000) nor more than three hundred thousand dollars (\$300,000) unless the fiscal body approves a greater amount for the officer or employee. County auditors shall file bonds in amounts of not less than thirty thousand dollars (\$30,000), as fixed by the fiscal body of the county. The amount of the bond of any other person required to file an individual bond shall be fixed by the fiscal body of the unit at not less than fifteen thousand dollars (\$15,000).

(d) Except as provided in subsection (j), a controller of a solid waste management district established under IC 13-21 or IC 13-9.5 (before its repeal) shall file an individual surety bond in an amount:

(1) fixed by the board of directors of the solid waste management district; and

(2) that is at least thirty thousand dollars (\$30,000).

(e) Except as provided under subsection (d), a person who is required to file an individual surety bond by the board of directors of a solid waste management district established under IC 13-21 or IC 13-9.5 (before its repeal) shall file a bond in an amount fixed by the board of directors."

**TREASURER'S SUPPLEMENTAL CAR-1**

The Treasurer did not provide the Auditor a Supplemental CAR-1 which contained the receipts and disbursements of the Treasurer's Office for 2012. Thus, the County Annual Report (CAR) for 2012 did not accurately reflect the financial activity of the Treasurer's Office.

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

COUNTY TREASURER  
LAPORTE COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on November 5, 2013, with Nancy Hawkins, Treasurer, and Mike Mauer, Chief Deputy Treasurer.

The contents of this report were discussed on November 12, 2013, with Earl Cunningham and Terry Garner, Council members.

The contents of this report were discussed on November 14, 2013, with Willie Milsap, President of the Board of County Commissioners; Dave Decker, County Commissioner; and Shaw Friedman, County Attorney.