

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

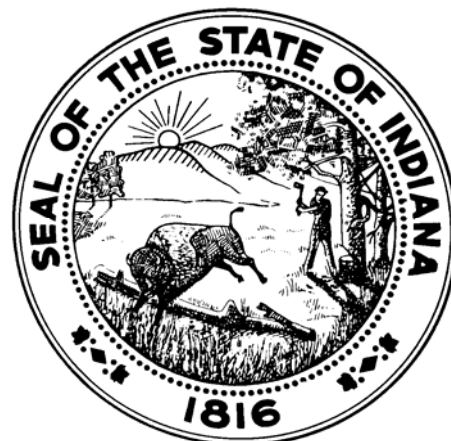
AUDIT REPORT

OF

COUNTY AUDITOR

LAPORTE COUNTY, INDIANA

January 1, 2005 to December 31, 2005



FILED

12/22/2006

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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Teresa M. Shuter	01-01-05 to 12-31-08
President of the County Council	John W. Jones Jerry Cooley	01-01-05 to 12-31-05 01-01-06 to 12-31-06
President of the Board of County Commissioners	Marlow Harmon	01-01-05 to 12-31-06



STATE OF INDIANA
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TO: THE OFFICIALS OF LAPORTE COUNTY

We have audited the records of the County Auditor for the period from January 1, 2005 to December 31, 2005, 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 LaPorte County for the year 2005.

STATE BOARD OF ACCOUNTS

October 12, 2006

COUNTY AUDITOR
LAPORTE COUNTY
AUDIT RESULTS AND COMMENTS

TIMELY RECORDKEEPING

We noted instances of months from the time of the original date where money was directly deposited into the County's bank account until it was posted to their records. From September through December, \$1,900,071 accumulated and was not posted on the Treasurer or Auditor's records until 2006. Over \$24,000 was still outstanding as of the May 2006 reconciliation, which included dollar amounts that were deposited back in July of 2004.

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 Counties)

RECONCILIATION OF TAX SALE AND TAX SURPLUS FUNDS

As stated in prior reports, financial records presented for audit were incomplete and not reflective of the activity of the Tax Sale Surplus and Tax Sale Redemption funds. The records presented did not provide sufficient information to reconcile the Tax Sale Records to the control ledger maintained by the Auditor.

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 Counties, Chapter 14)

CASH CHANGE FUND, RECEIPTS AND DEPOSITS

The Auditor's office collects fees for copies, maps, real estate endorsements, and sales disclosures. Receipts are issued for copies and maps upon request, however, they are generic duplicate receipts, not prescribed or approved by the State Board of Accounts, all other receipts were issued on prescribed forms. In addition, receipts were deposited only twice per month, not by the next business day as required. Our audit also revealed that a cash change fund had not been properly established. Cash was held back from previous receipts to make change and the fund was not balanced to a set amount each day.

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. . . . Public funds deposited . . . shall be deposited in the same form in which they were received."

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 Auditors, Chapter 14)

CAPITAL ASSET RECORDS

County officials have not maintained a current listing of capital assets owned by the County. In addition, the County's capital asset policy approved in 2003 does not address a threshold or definitions for infrastructure items or a depreciation policy for all capital assets.

COUNTY AUDITOR
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(Continued)

Governmental Accounting Standards Board (GASB) Statement 34, paragraph 18 states in part: "Capital assets should be reported as historical cost." "As used in this Statement, the term capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems."

GASB Statement number 34, paragraph 21 states, "Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets reported using the modified approach in paragraphs 23 through 25. Inexhaustible capital assets such as land and land improvements should not be depreciated."

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable Capital Asset Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Uniform Accounting and Compliance Guidelines Manual for County Auditors, Chapter 14)

COUNTY COUNCIL BOARD MINUTES

The County Council Board minutes for the period June 2006 through September 2006 were unavailable for audit.

The Auditor is ex-officio clerk or secretary of the following official bodies:

Board of Commissioners
County Council
County Board of Tax Adjustment

In this capacity it is the auditor's duty to publish and mail notices of meetings and to keep complete minutes attached to the proceedings of such bodies. In addition, all bids, contracts, petitions, ordinances, resolutions and other official documents submitted to or acted upon by such bodies shall be filed with and preserved by the auditor as part of the minutes. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 3)

DELINQUENT CONGRESSIONAL SCHOOL FUND LOAN

As reported in prior reports, a Congressional School Fund Loan was delinquent and continued to be delinquent at December 31, 2005. The total past due principal and interest at December 31, 2005, was \$5,595 and \$2,696, respectively. The Auditor has chosen not to collect on this loan.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

COUNTY AUDITOR
LAPORTE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

CONDITION OF RECORDS

The subsidiary ledger for the excess tax fund kept by the Treasurer's office did not agree with the Auditor's ledger at December 31, 2005. The Auditor and Treasurer need to work together to determine the differences.

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 Counties, Chapter)

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)

RECEIPTS

The Auditor's office does not count collections and issue receipts at the time the collections are brought over by individual departments.

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 Auditors, Chapter 14)

PAYROLL PAID IN ADVANCE

As noted in numerous prior audits, the Auditor is preparing and disbursing payroll checks in advance of time worked for all county employees except county highway employees.

Indiana Code 5-7-3-1 states in part: "Public officers may not draw or receive their salaries in advance."

EMPLOYEE SERVICE RECORDS AND LEAVE POLICIES

Our testing of the payroll system revealed the following deficiencies:

1. The Sheriff's Department did not maintain an accumulation of vacation and sick days remaining for their employees on the Employee's Service Record (Form 99A). Also, for some employees the prescribed service record was not used.
2. Clerk and Surveyor Departments allowed over 60 days of sick leave accumulated.
3. The Auditor's office allowed vacation time to be carried over from 2004 to 2005 and 2005 to 2006.

According to the LaPorte County Board of Commissioners Personnel Policy, dated December 23, 1996, vacation leave will not accumulated from year to year and sick leave may be accumulated up to a maximum of 60 working days.

COUNTY AUDITOR
LAPORTE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

PAYROLL DEDUCTION FUND

The Payroll Deduction Fund (Fund 221) had a cash balance of \$200,521.22 at December 31, 2005. This fund accumulates withholdings from employee's payroll and subsequently distributes the withholdings to various agencies. This fund should routinely have a zero balance after adjusting for any fund waiting for disbursement. At December 31, 2005, the only amounts not remitted were Public Employees' Retirement Fund (PERF) and Teacher's Retirement Fund (TERF) amounts withheld from the fourth quarter payrolls. These withholdings totaled \$160,706.77 and \$2,905.21, respectively, and were remitted on January 11, 2006. After these payments, an unidentified balance of \$36,909.24 remained in the payroll deduction fund.

Experience has shown that one of the most difficult problems encountered by public officials is accounting for payroll deductions. That is the reason the prescribed accounting procedures provide for transfers of payroll deductions into separate funds, with a separate fund to be established for each type of deduction. Also, the establishment of such funds provides a further proof of the correctness of the deductions and remittances since the entries in each fund can be reconciled to the control account in the employees' earnings records, to the earnings statements furnished employees at the close of the year and to the reports and remittances required to be made to the various federal, state and other agencies. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 6)

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 of Indiana, Chapter 20)

EXPENDITURES WITHOUT APPROPRIATION

The County transferred \$261,712 from the General Fund unappropriated to the Sheriff's Pension Fund without an appropriation as required. The source of revenues for these transfers was from process fees for writs, which are served by the County Sheriff. Deposit of a portion of these process fees into the pension fund is required by state statute; however, the disbursement from the general fund requires an appropriation. County officials should establish procedures to ensure that the transfer of these fees to the pension fund is properly appropriated.

Indiana Code 37-7-11(c) states: "From the county share distributed under section 4 of this chapter and deposited into the county general fund, the county fiscal body shall appropriate twelve dollars (\$12) for each claim presented by the sheriff to the fiscal body under subsection (b). Amounts appropriated under this subsection shall be deposited into the pension trust established under IC 36-8-10-12"

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AUDIT RESULTS AND COMMENTS
(Continued)

SELF-INSURANCE TRUST ACCOUNT NOT IN COUNTY'S RECORDS

The County has had a trust account used by a plan administrator to pay medical claims for employees and dependents since December 1992. The County does not reflect this account in its records. Since that time the County's cash balance has been understated by \$648,400. The Auditor should include this account in the County combined ledger. The annual report has included the activity of this account in the audited financial statements of the County.

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, Chapter 14)

ASSESSMENTS ON DITCH FUNDS

The County assesses ditch maintenance fees on the property tax bills. One of the ditch maintenance parcels tested was annexed and then split. The split parcel was not assessed. If assessments are not billed, drain maintenance expenses will not be reimbursed and individual drain accounts will be underfunded. A split parcel report should be printed and reviewed every year to ensure that all split parcels are reassessed.

Indiana Code 36-9-27-85 states in part:

"(a) The board shall certify the list of assessments apportioned under section 84 of this chapter to the auditor of each county in which there are lands to be assessed.

(b) Whenever the order of the board establishing an annual assessment for periodic maintenance becomes final, the board shall certify that annual assessment to the auditor of each county in which there are land to be assessed. The annual assessment shall be collected each year until changed or terminated by the board . . ."

Indiana Code 36-9-27-42 states in part:

"(a) The board may at any time increase or decrease the amount annually assessed for periodic maintenance of a regulated drain if the board finds that the county surveyor's estimate of the cost of maintaining the drain was insufficient or excessive."

DITCH MAINTENANCE FUND INTERNAL CONTROLS

The County posts maintenance fees and expenses to the Ditch Maintenance Fund. The receipts and disbursements are posted by individual ditches; however, the computer ledger system only maintains beginning and ending balances in the aggregate, not individually. Therefore, the balance of each ditch cannot be

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(Continued)

determined using the computer system. This does not allow for the monitoring of individual ditches' receipts, disbursements, and balances. Individual receipts, disbursements, and balances for each ditch should be maintained.

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 9)

COUNTY AUDITOR
LAPORTE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on October 25, 2006, with Teresa M. Shuter, Auditor. The official concurred with our audit findings.