

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

EXAMINATION REPORT  
OF  
HARRISON TOWNSHIP  
HOWARD COUNTY, INDIANA  
January 1, 2002 to December 31, 2005



**FILED**  
01/23/2007



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Trustee	John B. Harbaugh, Jr.	01-01-98 to 12-31-06
Chairman of the Township Board	Phillip Rayls Michael Craig	01-01-02 to 12-31-02 01-01-03 to 12-31-06



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF HARRISON TOWNSHIP, HOWARD COUNTY, INDIANA

We have examined the schedules of receipts, disbursements, and cash and investment balances of Harrison Township (Township), for the period of January 1, 2002 to December 31, 2005. The Township's management is responsible for the schedules.

Financial records presented for examination were incomplete and not reflective of the activity and balances of the General, Assistance, Firefighting, Build Indiana, Cumulative Fire, and Payroll Withholding Funds. The records presented did not provide sufficient information to examine receipts, disbursements and ending balances, or the accuracy or correctness of the transactions.

Because of the restrictions on our examination, as discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and do not express, an opinion on whether schedules referred to above present fairly, in all material respects, the cash transactions of the Township for the years ended December 31, 2002, 2003, 2004, and 2005, based on the criteria set for in the uniform compliance guidelines established by the Indianan State Board of Accounts.

STATE BOARD OF ACCOUNTS

October 26, 2006

HARRISON TOWNSHIP, HOWARD COUNTY  
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES  
As Of And For The Years Ended December 31, 2002, 2003, 2004, And 2005

	Cash and Investments 01-01-02	Receipts	Disbursements	Cash and Investments 12-31-02
Governmental Funds:				
General	\$ 107,051	\$ 77,370	\$ 59,833	\$ 124,588
Dog	56	70	-	126
Township Assistance	36,843	29,697	41,986	24,554
Firefighting	77,715	107,541	129,579	55,677
Build Indiana	53,678	30,080	62,067	21,691
Cumulative Fire	247,247	291,590	343,460	195,377
Fiduciary Fund:				
Payroll Withholdings	(118)	7,167	7,598	(549)
Totals	<u>\$ 522,472</u>	<u>\$ 543,515</u>	<u>\$ 644,523</u>	<u>\$ 421,464</u>

	Cash and Investments 01-01-03	Receipts	Disbursements	Cash and Investments 12-31-03
Governmental Funds:				
General	\$ 124,588	\$ 87,274	\$ 51,003	\$ 160,859
Dog	126	-	-	126
Township Assistance	24,554	46,260	25,550	45,264
Firefighting	55,677	106,236	90,201	71,712
Build Indiana	21,691	311	-	22,002
Cumulative Fire	195,377	248,696	290,030	154,043
Fiduciary Fund:				
Payroll Withholdings	(549)	7,230	7,605	(924)
Totals	<u>\$ 421,464</u>	<u>\$ 496,007</u>	<u>\$ 464,389</u>	<u>\$ 453,082</u>

	Cash and Investments 01-01-04	Receipts	Disbursements	Cash and Investments 12-31-04
Governmental Funds:				
General	\$ 160,859	\$ 49,718	\$ 46,119	\$ 164,458
Dog	126	-	-	126
Township Assistance	45,264	44,696	26,302	63,658
Firefighting	71,712	95,020	104,663	62,069
Build Indiana	22,002	-	-	22,002
Cumulative Fire	154,043	212,598	78,771	287,870
Fiduciary Fund:				
Payroll Withholdings	(924)	-	-	(924)
Totals	<u>\$ 453,082</u>	<u>\$ 402,032</u>	<u>\$ 255,855</u>	<u>\$ 599,259</u>

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 164,458	\$ 53,934	\$ 50,286	\$ 168,106
Dog	126	-	-	126
Township Assistance	63,658	44,175	32,588	75,245
Firefighting	62,069	98,142	113,142	47,069
Build Indiana	22,002	-	-	22,002
Cumulative Fire	287,870	86,322	78,771	295,421
Fiduciary Fund:				
Payroll Withholdings	(924)	-	-	(924)
Totals	<u>\$ 599,259</u>	<u>\$ 282,573</u>	<u>\$ 274,787</u>	<u>\$ 607,045</u>

The accompanying notes are an integral part of the schedules.

HARRISON TOWNSHIP, HOWARD COUNTY  
NOTES TO SCHEDULES

Note 1. Introduction

The Township was established under the laws of the State of Indiana. The Township provides the following services: public safety, health and social services, culture and recreation, and general administrative services.

Note 2. Fund Accounting

The Township uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Township in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the Township on or prior to December 31 of the year collected.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the Township to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

HARRISON TOWNSHIP, HOWARD COUNTY  
EXAMINATION RESULTS AND COMMENTS

OFFICIAL'S BOND

John B. Harbaugh Jr., Trustee, did not have an official bond on file with the Howard County Recorder Office for the examination period. A similar comment appeared in prior Report B20729

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder . . ."

CONDITION OF RECORDS

The following deficiencies in recordkeeping were noted.

1. The depository reconcilements of the bank balances to the fund account balances were incomplete or incorrect. A similar comment appeared in prior report B20729.

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."

A similar comment appeared in prior report B20729.

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 Townships, Chapter 13)

2. The bank reconciliation as of December 31, 2005, revealed checks outstanding in excess of two years.

Indiana Code 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

Indiana Code 5-11-10.5-3 states in part: "Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the: (1) board of finance of the political subdivision; or (2) the fiscal body of a city or town. The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

Indiana Code 5-11-10.5-5 states: "(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks. (b) If the disbursing officer does not serve also as treasurer

HARRISON TOWNSHIP, HOWARD COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

PENALTIES AND INTEREST - LATE PAYMENT TO VENDORS

Payments to vendors were not always made on a timely basis. Twenty-two percent of invoices reviewed were paid sixty or more days after the invoice date which resulted in late payment charges of \$63.66 in 2002 and \$32.24 in 2004.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

PENALTIES AND INTEREST-LATE PAYMENT OF PAYROLL TAXES

Payroll withholding reports for the 2004 were not filed until 2005 and 2005 payroll withholding reports were not always filed on a timely basis. Penalties and interest payments have been identified to the Internal Revenue Service and The Indiana Department of Revenue in the amounts of \$860.78 and \$434.50, respectively.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

The Trustee, John B. Harbaugh, Jr., was requested to reimburse the Township \$1,295.28 for the penalties and interest paid. The Trustee was also requested to contact the Internal Revenue Service to determine if there were additional amounts of penalties and interest that were not presented for examination. (See Summary, page 13)

HARRISON TOWNSHIP, HOWARD COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

OVERPAYMENT/DUPLICATE PAYMENTS

Overpayments, of \$1,724.70 and \$1,900.76, were made to the Internal Revenue Service for the third and fourth quarters of 2004, respectively. The quarterly reports for each of these quarters were filed and paid twice

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

OPTICAL IMAGES OF CHECKS

The financial institution did not return cancelled checks with the monthly bank statements, but instead returned an optical image of the front side of checks clearing the depository..

Indiana Code 5-15-6-3(a) concerning optical imaging of checks states, in part: ". . . 'original records' includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

Furthermore, Indiana Code 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

ANNUAL DOG REPORTS

Annual Dog Reports were not completed for the years 2002, 2003, 2004, and 2005.

The Township Trustee shall make a report of the Dog Fund to the county auditor on the first Monday of March of each year, showing all receipts into the Dog Fund and all orders drawn against the Dog Fund in the order drawn. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 7)

HARRISON TOWNSHIP, HOWARD COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

CERTIFIED REPORT OF NAMES, ADDRESSES, DUTIES  
AND COMPENSATION OF PUBLIC EMPLOYEES

The Annual Certified Report of Names, Addresses, Duties and Compensation of Public Employees (100R) were not filed for the years 2002, 2003, 2004, and 2005.

Each year during the month of January each township trustee must complete a Certified Report of Names, Addresses, Duties and Compensation of Public Employees Form 100R and send the same properly certified to the State Examiner of the State Board of Accounts. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 2)

ANNUAL REPORT

The Township Trustee Annual Report (Form 15) for the year 2002 was not presented for examination. The 2003, 2004, and 2005 annual reports did not reflect all financial activity shown in the records.

The Township Trustee's Report of Receipts and Disbursements for the Calendar Year is an abstract report of receipts and disbursements for the calendar year. The annual report shall be prepared, verified, and filed with the State Board of Accounts within 30 days after the close of each fiscal year. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 2)

CAPITAL ASSET RECORDS

Information presented for audit, did not indicate an inventory or record of capital assets using Form 369 (Revised 2004), was maintained.

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. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

CASH NECESSARY TO BALANCE. BANK RECONCILIATIONS

A comparison of the records to the bank account indicated cash necessary to balance of \$11,347.38.

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 Townships, Chapter 13)

HARRISON TOWNSHIP, HOWARD COUNTY  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

PRESCRIBED FORMS

The following prescribed forms were not always in use:

Township Form 17 - Resolution Recommending Salaries for  
Township Officers and Employees  
Township Form 1C - Financial and Appropriation Record  
Township Form 16 - Township Trustee's Receipt  
General Form 369 - Capital Asset Ledger  
General Form 100R - Certificate Report of Names, Addresses,  
Duties and Compensation of Public Employees  
Township Trustee Check Form 6  
Employee's Service Record Form 99A  
Employee's Earning Record Form 99B

A similar comment appeared in the previous reports B10584 and B20729.

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 Townships, Chapter 13)

OVERDRAWN CASH BALANCES

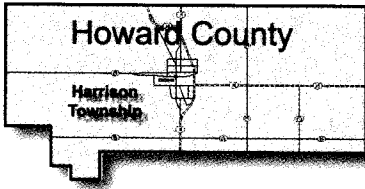
The cash balance of the Payroll Withholding Fund was overdrawn in 2002, 2003, 2004, and 2005.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

HARRISON TOWNSHIP, HOWARD COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on October 26, 2006, with Susanne Jones, Board member.

The contents of this report were discussed on October 26, 2006, with John Harbaugh, Jr., Trustee.  
The official response has been made a part of this report and may be found on page 12.



**John B. Harbaugh, Jr.**  
*Harrison Township Trustee*

4057 S. Webster St. • Kokomo, Indiana 46902 • Phone 765-455-0345 • Fax 765-455-0351

NOvember 8, 2006

State Board of Accounts  
302 W. Washington  
Indianapolis, IN 46204

To Whom It may concern,

This is the Harrison Township Response to the recent audit. There are preliminary two items that we would like to respond to. The first is the statement that the trustee should pay for the penalties for the 941 payments for the township.

The point that I would like to make is that the reason for this is that at the last audit there had been a charge for IRS penalty and there was one during this audit.

My reason for disputing this is that the the IRS penalty from the first audit was incurred by my predecesor, who had passed away, and I was filling in for the balance of his term. When this was stated at the previous audit, I was not told that I could comment on this issue. I believed that it was a statement against the office of the Trustee, and not individually.

Since the first audit there have been IRS penalties. These occured when the clerk passed away suddenly and the 941 payment did not get paid on time due to the fact that I was not aware that there was any payment due. If I had known, then the payment would have been made on time and no penalty incurred.

I think that the most important point in making my case for not being liable for the penalty payment is that from the time that I took over for the deceased trustee who had incurred the first penalty, until the time that the township clerk had passed away, there was never any late payments or penalties. In addition, since I discovered the fact that the payment had not been sent in to now there have been no penalites incurred. That is the reason that I am asking for the waiver of the penalty.

In addition the trustee office is asking the IRS to waive their penalties, due to the same reason that I have asked of you. That being that it was due to the unusual circumstances of the death of the clerk.

There is also an issue of the balance of the books being off. I do not agree with the numbers, but have not had enough time to investigate this further. We are doing this review at this time, and will probably ask a CPA firm to verify the numbers, and will let you know of the outcome.

Handwritten signature of John B. Harbaugh, Jr.

HARRISON TOWNSHIP, HOWARD COUNTY  
SUMMARY

	Charges	Credits	Balance Due
John B. Harbaugh, Jr., Trustee:			
Penalties and Interest-Late Payment of Payroll Taxes, amount paid to Internal Revenue Service, page 7	\$ 860.78	\$ -	\$ 860.78
Penalties and Interest-Late Payment of Payroll Taxes, amount paid to Indiana Department of Revenue, page 7	434.50	-	434.50
Totals	\$ 1,295.28	\$ -	\$ 1,295.28

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AFFIDAVIT

STATE OF INDIANA )  
                          )  
HOWARD COUNTY )

I, Arthur R Essex Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of Harrison Township, Howard County, Indiana, for the period from January 1 2002, to December 31, 2005, is true and correct to the best of my knowledge and belief.

Arthur R Essex  
Field Examiner

Subscribed and sworn to before me this 18 day of January, 2007

Mona L Myers  
Clerk of the Circuit Court