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

AUDIT REPORT

OF

COUNTY AUDITOR

PORTER COUNTY, INDIANA

January 1, 2006 to December 31, 2006

FILED

11/30/2007

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COUNTY OFFICIALS

Office	Official	Term
Auditor	Sandra Vuko	01-01-03 to 12-31-06
	James K. Kopp	01-01-07 to 12-31-10
President of the County Council	Daniel Whitten	01-01-06 to 12-31-07
President of the Board of County Commissioners	Robert Harper	01-01-06 to 12-31-07

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

TO: THE OFFICIALS OF PORTER COUNTY

We have audited the records of the County Auditor for the period from January 1, 2006 to December 31, 2006, 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 2006.

STATE BOARD OF ACCOUNTS

September 27, 2007

TAX SETTLEMENT

When property taxes are "settled", a form is compiled by the Auditor which reconciles the billings and collections to the cash available for settlement based upon the Treasurer's record of cash collected from property taxes. The Auditor's numbers are based upon computerized reports. The Treasurer's numbers are based upon his manual ledger of cash balances, and the reconciled bank balance. The form compiled by the Auditor must be approved by the State of Indiana Auditor's Office prior to settlement being made.

The December settlement of the 2005 pay 2006 taxes, as submitted by the Auditor's office to the State of Indiana was not approved. Subsequently, the State Auditor's office completed the settlement on behalf of the County.

Multiple discrepancies existed that resulted in a $1,748,943.13 adjustment to balance the County Auditor's tax records with the County Treasurer's cash collections for this time period. Some of the discrepancies between what was reported on the settlement and what was reported on the computer system were as follows:

1. The amount reported on the computer system as "billed" was not in agreement with the amount reported on the settlement as "charges" (billed) by $2,300,615.

2. The amount reported on the computer system for the "10% penalty on current first installment delinquent" differed from the amount reported on the settlement sheets by $85,900.63. Eleven taxing districts were inadvertently omitted from the settlement sheet.

The County maintains Tax Duplicate Book Journals (tax duplicates) for real estate, mobile homes, personal property, railroads, and utilities. The journals are computerized records of all property owners in Porter County. The journals document the amount of tax billed and the amount paid by each property owner separated by taxing unit. In addition to the computer reports, the settlement numbers should also agree with the tax duplicate books. Discrepancies were also noted between these two records as follows:

1. The amounts recorded as collections of property taxes in the Treasurer's Cash Book and on the County's Settlement and Distribution Report were not the same amounts as recorded in the tax duplicates. In addition, amounts recorded in the tax duplicates as being billed did not agree to the amounts included on the county's approved abstract as the amounts billed for property taxes. Officials in the Treasurer, Auditor, and Information Technologies Services (ITS) offices were unable to explain the differences.

2. The certificate of errors reported on the settlement reports did not agree with the year end tax duplicate certificate of error totals. The certificates of errors from the penalties were not included in the tax duplicate totals.

3. An amount posted as "PP Audit" in the "billed" portion of the computer report that could not be traced to the tax duplicate reports.

Furthermore, the tax duplicates are computer generated forms that replace the forms prescribed by the State Board of Accounts. These forms have not been approved and are not exact replicas of the prescribed forms. Several columns of the prescribed form are not included on the county's form and all delinquent taxes and penalties are combined into one amount without distinguishing between taxing periods. Also, payment dates do not include the year and only the last date of payment is available when partial payments occur.

By the provisions of IC 6-1.1-27-1 and 6-1.1-27.2, the county auditor and the county treasurer, on or before June 20th and December 20th of each year, shall meet to make settlement of taxes and special assessments collected during the preceding six months periods ending May 10 and November 10, respectively, and at that time the treasurer shall also make settlement of any other collections required by law to be paid to the county treasurer. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 9)

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)

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)

AUDITOR TAX REFUNDS

After a taxpayer has paid his or her property taxes, errors may be discovered resulting in a refund to the taxpayer. When this occurs, a claim for the refund is filed and recorded on a "Claim for Refund of Taxes" report (County Form 17T), and the amount refunded is posted to the Refunds Fund (62). It is not until the settlement of taxes is performed that any money is receipted into the Refunds Fund; thus, this fund will accumulate a deficit or negative cash balance until such time as the settlement is performed.

According to the Auditor's office, all disbursements posted to the Refunds Fund (62) as of December 31, 2006, should have been included in the final settlement distributed in April 2007. The cash balance of the Refunds Fund at December 31, 2006, was a negative $1,773,950 (overdrawn cash balance). The amount distributed to the Refunds Fund at settlement only totaled $1,200,210.69, which calculates to a deficit balance after settlement of ($573,739.31). Theoretically, the ending balance of the Refunds Fund should be zero after the tax settlement distribution to reimburse the fund has been received; however, the Auditor's office does not reconcile the Claim for Refund of Taxes report (County Form 17T) to the Refunds Fund cash balance.

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)

TAX MANAGEMENT ASSOCIATES FUND

The County entered into a contract with Tax Management Associates (TMA) to perform a comprehensive review of business taxpayer returns. Once this amended tax has been collected by the County, it is receipted to the TMA Collections Fund (225) and a form is sent to TMA in order for them to invoice the County for their fee. Per the ordinance established for the TMA Collections Fund, after disbursements have been remitted to TMA, the fund balance is to be distributed to the affected taxing units as required by state law. The County Auditor has never distributed any of the remaining fund balance to the taxing units. As of December 31, 2006, the TMA Collections Fund had a balance of $371,270.

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

DISBURSEMENTS EXCEEDED APPROPRIATIONS

The records presented for audit indicated the following fund's disbursements in excess of appropriations:

Fund	Amount
General:	
Assessor	$ 8,666
Cooperative Extension	1,116
County Commissioners	412,053
Coroner	9,045
Prosecuting Attorney	87
Sheriff's Garage	35,192
Subtotal General	466,159
County Surveyor's Corner Perpetuation	52,897
County Drug Free Community	1,190
Hazardous Substance	249,437
Supplemental Public Defender Service	2,033
Federal Jail Commissioners	6,744
County Building Bonds	334,680
Juvenile Service Center Lease Rental	361,542
Juvenile Housing Debt	3,101,454
Election Equipment	869,344

For the Supplemental Public Defender Service Fund, a budget was not presented as being established.

It is the duty of the county auditor to see that no disbursements are made in excess of or in the absence of an appropriation, where an appropriation is required for payment of the obligation. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 5)

Each warrant must show the fund on which it is drawn and, if applicable, the appropriation account or accounts to be charged. It is unlawful to overdraw any fund or to issue a warrant in excess of the appropriation available, where an appropriation is required. Penalties are provided in IC 36-2-6-12 where an auditor is convicted of violating these requirements. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 6)

Indiana Code 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."

Indiana Code 33-40-3-2 concerning the Supplemental Public Defender Services Fund states: "The fiscal body of the county shall appropriate money from the fund to supplement and provide court appointed legal services to qualified defendants."

APPROPRIATIONS POSTINGS

The original appropriation posted to the General Fund was $15,730 greater than the departmental County Council approved appropriations provided for audit. In addition, the original posted appropriations were $600,000 greater than the Indiana Department of Local Government Finance's (IDLGF) final approved appropriation. An adjustment to decrease the General Fund's appropriations by $615,730 to the IDLGF approved appropriations could not be determined. Thus, the General Fund's disbursements exceeded the approved appropriations by $44,718. The ending appropriation balances for the General Fund were as follows:

Description	Appropriations	Cash Disbursements (Net of Unappropriated)	Variance
Calculated (based upon IDLGF appropriations)	$ 30,541,837	$ 30,586,555	$ (44,718)
Auditor (after year end encumbrances)	31,539,804	30,586,555	953,249
Differences	$ (997,967)	$ -	$ (997,967)

Furthermore, the final appropriations for other appropriated funds did not agree to the calculated appropriation balances. The calculated appropriations was based on the IDLGF's approved appropriations, any approved additional appropriations and beginning and ending encumbrances. The following is the variance between the calculated ending appropriation balances and the auditor's appropriations balance by fund type:

	Calculated Appropriations	Auditor Appropriations	Variances
Special Revenue Funds	$ 23,119,909	$ 24,579,466	$ (1,459,557)
Debt Service Funds	4,588,841	5,011,222	(422,381)
Capital Projects Funds	6,939,745	8,447,578	(1,507,833)
Totals	$ 34,648,495	$ 38,038,266	$ (3,389,771)

The Auditor's appropriations balances could not be verified since a detail Ledger of Appropriations, Encumbrances, Disbursements and Balances was not provided for audit.

The budget laws require adoption of a balanced budget for each fund subject to appropriation by the council. The budget shall include all anticipated revenues and expenses, with appropriations limited to the revenues available in each fund.

It is the duty of the county auditor to see that no disbursements are made in excess of or in the absence of an appropriation, where an appropriation is required for payment of the obligation. Instances in which disbursements may be made without appropriation are set out in Chapter VIII. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 5)

Indiana Code 6-1.1-17-16(b) states: "Subject to the limitations and requirements prescribed in this section, the department of local government finance may review, revise, reduce, or increase the budget by fund, tax rate, or tax levy of any of the political subdivisions whose tax rates compose the aggregate tax rate within a political subdivision whose budget, tax rate, or tax levy is the subject of an appeal initiated under this chapter."

TEMPORARY LOAN REPAYMENT

The $5,000,000 proceeds of the tax anticipation warrant were receipted to the TAW Fund (221). Transfers were then made directly from the TAW Fund to the Cumulative Bridge (25) and Emergency Telephone System E-911 (37) Funds to repay $4,100,000 of temporary loans previously receipted to the General Fund (001) without being receipted and disbursed from the General Fund. In addition, a balance of $900,000 remained at December 31, 2006, in the TAW Fund. Although the tax anticipation warrant was repaid on December 28, 2006, the total $5,000,000 was repaid from the General Fund even though $900,000 of the warrant proceeds were still reported in the TAW Fund. Thus, the $900,000 should be transferred to the General Fund from the TAW Fund in 2007.

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 of Indiana, Chapter 14)

TAX ANTICIPATION WARRANTS INTEREST

The County paid the tax anticipation warrants interest payment of $111,232.88 from the General Fund (001) unappropriated balance. The principal repayment of tax anticipation warrants may be paid without an appropriation; however, the interest payment must be appropriated.

The notes or warrants must show the funds and revenues in anticipation of which they are issued and out of which they are payable. The principal of a temporary loan may be paid without an appropriation, but an appropriation is required for payment of the interest, where it is borrowed for a fund subject to the provisions of the budget laws. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 6)

SALE OF COUNTY OWNED HOSPITAL

On May 1, 2007, the County sold Porter Hospital, a County owned hospital. At the closing, in addition to the sales price, several accounts held by Porter Hospital and the balances of those accounts were transferred to the County. The accounts included the operating, payroll, self-insurance and customer refund account, investment accounts, and other accounts in which funds are held in trust for the payment of existing hospital long-term debt.

The money was transferred from the operating, payroll, self-insurance, and customer refund accounts into a new County bank account. This account is to be used to cover checks written by the Hospital prior to the date of sale, but which have not yet cleared the bank. Additionally, the County is to issue checks from this account for bills incurred by the Hospital prior to the date of the sale, but for which bills had not yet been presented for payment.

The money held in the various trust accounts for the payment of long-term debt incurred by the Hospital will remain in those accounts until such time as the debt has been extinguished.

Finally, the money held in the investment accounts and the sale price can be used by the County at the discretion of the county fiscal body after a five year period.

All of these funds have been transferred to the County based upon closing documents; however, none of the money has been receipted into the County funds. Based upon closing documents, cash and investments received totaled $129,805,570; however, the County is not being provided with investment account statements for some accounts including an investment account with a balance of $49,999,275 and another with a balance of $14,910,180.

The County is paying bills for goods and services provided prior to the closing date and for expenses incurred as a result of the sale of the Hospital; however, none of these transactions are being recorded in the official records of the County. None of the expenses are being processed in accordance with claims procedures established by statutes.

Indiana Code 16-22-3-17(j) states:

"The proceeds of the sale or lease of all of the hospital buildings must first be applied to outstanding indebtedness attributable to the hospital buildings. The commissioners shall deposit the balance of the proceeds from the sale or lease and any property in the hospital fund in:

(1) a nonexpendable interest bearing trust fund from which claims are paid for county hospital claims for the indigent or any other fund that the county executive and county fiscal body designate; or

(2) the county general fund."

Indiana Code 36-2-10-16 (a) states in part:

"Before the sixteenth day of each month, the treasurer shall prepare a report showing, as of the close of business on the last day of the preceding month, the following items: . . .

(3) The totals of money received from all other sources and not receipted into the ledger fund accounts of the county at the end of the month.

(4) The total of the balances in all ledger fund accounts.

(5) The total amount of cash in each depository at the close of business on the last day of the month."

Indiana Code 36-2-6-2 states:

"A person who has a claim against a county shall file an invoice or a bill with the county auditor. The auditor shall present the invoice or bill to the executive, which shall examine the merits of the claim. The executive may allow any part of the claim that it finds to be valid."

EXCESS TAXES FUND

When overpayments on property taxes are received by the County Treasurer, the balances of the overpayments are receipted into the Excess Taxes Fund (43). Additionally, the Auditor is required to maintain a listing by property owner and the amount paid in excess of the taxes due. The total of this detail should agree to the cash balance of the Excess Taxes Fund.

The detail of the Auditor's excess tax fund reports entitled "Treasurer's Schedule of Excess Tax Payments Received" is not in agreement to the cash balance in the Excess Taxes Fund (43). The detail in the Auditor's office is $9,861.39 less than the cash balance of the Excess Taxes Fund at December 31, 2006. In addition, $172,595.09 of unclaimed payments that are over three years old were not transferred to the General Fund.

Excess (surplus) tax shall be reported by the treasurer on the County Treasurer's Certificate of Tax Collections, County Form 49TC. The county treasurer is also required to file Ledger Form 65-STF, Surplus Tax Fund Ledger, listing in detail by taxing district each item of surplus tax collected, the total of which shall be receipted into the "Surplus Tax Fund." The detail ledger sheets shall be placed in the county auditor's ledger and be disbursed in the appropriate manner.

If an excess payment is not claimed within the three (3) year period after November 10 of the year in which the payment was made and the county treasurer has given the written notice, the county auditor shall transfer the excess from the surplus tax fund to the general fund of the county. If the county treasurer has given written notice concerning the excess, the excess may not be refunded after the expiration of that three (3) year time period. [IC 6-1.1-26-6(c)] (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 9)

TAX SALE SURPLUS LEDGER

When property is sold on tax sale, any money paid over and above the delinquent taxes, penalties, and interest owing on the property is placed in the Tax Sale Surplus Fund (64). Additionally, a detail ledger is required to be maintained documenting the amount paid in surplus, and by whom the funds were paid.

The following deficiencies concerning the tax sale surplus taxes were noted:

1. Four claims disbursed out of the Tax Sale Surplus Fund were not posted as paid to the manually prepared detail tax sale surplus fund ledger.

2. A disbursement was posted to the Tax Sale Surplus Fund in the amount of $11,233.11 in 2005. Based upon the detail ledger, $12,147.37 was collected as surplus, and still remains in surplus as the $11,233.11 was not posted as a disbursement to the detail tax sale surplus ledger.

3. The Tax Sale Surplus Fund and the detail tax sale surplus tax ledger was not reconciled at December 31, 2006.

4. Items over three years old have not been receipted back into the General Fund.

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)

TAX SALE REDEMPTION FUND

After a property is sold on tax sale, the owner may "redeem" or purchase the property back within one year. When a property is redeemed, the money collected is placed in the Tax Sale Redemption Fund (65) for subsequent distribution to the "purchaser" of the property from the tax sale. The transaction is also posted to a detail record equivalent of the "Tax Sale Report." This detail record should be reconciled to the Tax Sale Redemption Fund to ensure all activity has been properly posted. The following deficiencies concerning the tax sale redemption fund were noted:

1. An unidentified receipt dated January 30, 2006, was posted to the Tax Sale Redemption Fund that could not be traced to a Tax Sale Redemption Certificate.

2. A property was redeemed and the collections were properly posted to the Tax Sale Redemption Fund; however, as of June 30, 2007 the collections had not been remitted to the purchaser of the property from the tax sale.

3. A property was redeemed for an amount greater than the amount listed on the tax sale redemption certificate. The proper amount was remitted to the purchaser; however, a balance remained in the Tax Sale Redemption Fund for the excess redemption amount.

All collections in the Tax Sale Redemption Fund should be disbursed out of the fund in a timely manner. Since the Tax Sale Redemption Fund is not reconciled to the detail record, the County is not able to determine discrepancies when they occur. At January 1, 2006, there was a beginning balance in the fund of $4,418 which cannot be identified.

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)

DRAINAGE LEDGERS

Two ledgers are maintained to account for the individual drain activity. One ledger maintains the activity of the Drain Maintenance Fund (90), while the second maintains the activity of the Drain Improvement Fund (91). Generally, for each drain requiring maintenance, an assessment is established and billed to the property owners affected by the drain. The assessment should be sufficient to cover the cost of the maintenance of the drain. These assessments billed, collected, and maintenance costs are accumulated by individual drain and in total in the Drain Maintenance Fund Ledger. If funds are not sufficient to cover the costs of maintenance of such drains, then the costs of maintenance of the drain is accounted for in the Drain Improvement Fund Ledger. The costs are also accumulated in the Drain Maintenance Fund Ledger as an amount payable to the Drain Improvement Fund; thus, the Drain Improvement Fund in this respect acts as a bank loaning funds to the Drain Maintenance Fund.

The County has set up exact replicas of the prescribed Drainage Fund Ledgers in a commercially purchased computer software program, Microsoft Excel (Excel). The activities have been posted in the prescribed record and in Excel files for the past two years. The balances recorded in the Excel files for the Drain Maintenance Fund for the assessed balances due did not agree to the balances reported in the prescribed record for many of the drains. The differences observed were significant.

The assessments posted for 2004 as "billed" for some drains were not correct based upon the assessment rolls. Some assessments posted were double the amounts per the assessment rolls, only a few were correct. For example, the Reeves - South Drain total assessments for 2004 were approximately $62,105; however, the computer generated report of assessments billed for this ditch was $125,925.14, and this is the amount that was posted by the Auditor as assessments billed. No one reviewed the records to compare to prior and subsequent years billings posted, or the discrepancies may have been discovered and resolved. Thus, the current unpaid assessments balance is inaccurate for most of the drains.

When drain maintenance is performed and paid for from the Drain Improvement Fund due to the lack of funds available in the Drain Maintenance Fund, the cash balance in the Drain Improvement Fund for that drain is negative. This negative cash balance should agree to the "Due to the General Drain Improvement Fund" accounted for in the Drain Maintenance Fund ledger; however, this is not true for the County due to posting errors. For example, the Auditor is reporting a Due to the General Drain Improvement Fund in the Drain Maintenance Fund of $30,242.53 for the Breyfogle/Kithcart Drain, but the deficit cash balance of the Breyfogle/Kithcart Drain Improvement Fund is $19,089.34. Amounts paid for from the Drain Improvement Fund are not always being posted against the "Due To" in the Drain Maintenance Fund. Amounts being transferred from the Drain Maintenance Fund to repay the Drain Improvement Fund were not always posted against the "Due To" balance maintained in the Drain Maintenance Fund. For example, a transfer of $12,000 was made from the Breyfogle/Kithcart Drain Maintenance Fund in 2006 to the Breyfogle/Kithcart Drain Improvement Fund. The $12,000 was correctly posted to the Drain Improvement Fund, but it was not recorded as a repayment of the $30,242.53 Due to the General Drain Improvement Fund balance in the Drain Maintenance Fund.

Indiana Code 36-9-27-44 states in part:

"(a) A maintenance fund is established for each regulated drain and for each combination of drains established under section 41 of this chapter. A maintenance fund consists of:

(1) money received from annual assessments upon land benefited by the periodic maintenance of a drain;

(2) penalties received on collection of delinquent annual assessments made for the periodic maintenance of a drain; and

(3) money received from any person as compensation for damages suffered to a drain.

(b) The county auditor shall:

(1) set up a separate ledger account for each regulated drain or combination of drains whenever the board fixes an annual assessment for the periodic maintenance of the drain or combination; and

(2) extend the assessments upon the ditch duplicate in each year that the assessments are to be made."

Indiana Code 36-9-27-45 states:

"A maintenance fund established under section 44 of this chapter is subject to the use of the board for the necessary or proper repair, maintenance, study, or evaluation of the particular drain or combination of drains, which may be done whenever the board, upon the recommendation of the county surveyor, finds that it is necessary. The payment for all such maintenance work shall be made out of the appropriate maintenance fund. However, if:

(1) a maintenance fund has not been established for the drain or combination of drains; or

(2) a maintenance fund has been established but it is not sufficient to pay for the work; the general drain improvement fund shall be used to pay the cost of the work or to pay for the deficiency, and the general drain improvement fund shall be reimbursed from the appropriate maintenance fund when it is established or becomes sufficient."

PAYROLL FUND

As stated in prior report, the Payroll Fund (44), an Agency Fund, should not have a balance more than the next month's withholding disbursement after all disbursements are made within that fund. Balances should not accumulate from year to year. As of December 31, 2006, the Payroll Fund balance per the County's ledger totaled $166,033.99. Based on an analysis of the Payroll Fund activity and the subsequent payments made in January 2007, the ending balance should have only totaled $141,596.12. Thus, at December 31, 2006, the Payroll Fund had a balance of $24,437.87 greater than the calculated balance. The Auditor's office should ensure that the total receipted to the Payroll Fund is disbursed from the Payroll Fund properly.

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)

EMPLOYEE'S SERVICE RECORDS

The County maintains an "Employee Attendance Record" which serves as the employee's time card and absence summary. The absence summary portion, when completed, only documents the amount of the sick, vacation, personal and compensatory time used. The "Employee Attendance Records" are remitted to the Auditor's office for the preparation of the payroll and the updating of the leave balances. The "Employee

Leave Plan Report" is used in lieu of the Employee's Service Record (Form 99A) to track sick, vacation, personal and compensatory time earned and used. The "Employee Leave Plan Report" only reflects balances of each leave category. The leave balances used or compensatory time earned are written on the "Employee Leave Plan Report" and after manually entered onto the system, an updated "Employee Leave Plan Report" is printed which would reflect the change and be ready for the next payroll updates. The "Employee Leave Plan Report" is not a prescribed or an approved Employee's Service Record.

Further inspection of the Auditor's computer system determined that a report titled "Employee Service Record" which reflects the beginning balances, accrued, used and ending balances of the leave time was available. For nine of the fifty employee's service records tested, the year end leave balances did not agree to the year end balances on the "Employee Leave Plan Report". In addition, seven employee's service records year end balances had a negative balance. One employee was determined to have only accrued twenty days of vacation, when based on the hire date and the County's policy; the employee should have accrued twenty-five days. It was also determined that the court employees, who have a different leave policy and accrue paid time off, were not tracked by the Auditor's office and the department only tracks the time on the "Employee's Attendance Record". The time cards for the sheriff and highway departments report the beginning balances, accrued, used and ending balances of the leave times. Differences were noted in the year end leave balances per the department's time cards and the Auditor's "Employee Leave Plan Report" for the nine sheriff employees and one highway employee tested.

The Employee Service Record also showed when the leave time was accrued. Per the County's policy, employees' annual leave time is accrued on the employee's anniversary date which is the employee's hire date. For fifteen of the fifty employees tested, the accrued time posted to the employee service record was anywhere from nine to twenty-six days before the employee's anniversary date. For two employees, the accrued time was not posted until twenty-two and forty-one days after the employee's anniversary date.

All governmental units are required by law to use the forms prescribed by this department; however, if it is desirable to use a different form or to have a prescribed form modified to conform for computer applications, a letter and three copies of the proposed form may be submitted to the State Board of Accounts for approval. No form should be printed and placed into use, other than a prescribed form, without prior approval. 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)

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

ANNUAL REPORT

The County's Annual Report was not completed until July 2007. The report should have been completed by January 30, 2007.

In addition, the County's annual receipts and expenditures for the preceding calendar year were not published until after inquiry was made in September 2007.

Indiana Code 5-11-1-4(a) concerning annual reports, states in part: ". . . these reports shall be prepared, verified, and filed with the state examiner within thirty (30) days after the close of each fiscal year."

Indiana Code 36-2-2-19 concerning annual statement of county's receipts and expenditures, states:

"At its second regular meeting each year, the executive shall make an accurate statement of the county's receipts and expenditures during the preceding calendar year. The statement must include the name of and total compensation paid to each county officer, deputy, and employee. The executive shall post this statement at the courthouse door and two (2) other places in the county and shall publish it in the manner prescribed by IC 5-3-1."

CONGRESSIONAL SCHOOL FUND INTEREST

The interest on the Congressional School Interest Fund (61) was not disbursed to the treasurer of each school corporation in January or July of 2006 or 2007 as required by statue.

The Congressional School Interest Fund was derived from the sale of the sixteenth section of land in each congressional township, or land equivalent thereto, granted or reserved to the inhabitants of each township by an Act of Congress, passed on April 19, 1816. The principal of the fund of each congressional township must be perpetually held in trust.

Semiannually, on the second Monday of July and the last Monday in January, the auditor of each county shall make distribution of the interest on the congressional fund to the treasurer of each school corporation. The interest is computed at the rate of 4% per annum on the amount held in trust for each congressional township and apportioned and distributed on the basis of the enumeration of children, pursuant to IC 21-1-1-54. The last enumeration of children was made in the year 1932 and the amounts held in trust by the respective townships have not changed since that time. Therefore, the basic apportionment and distribution formula has been affected in recent years only by the reorganization of school corporations. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 11)

The county is liable for the payment of interest to the state on the common and permanent endowment funds and to the school corporations on the congressional school fund, on the amounts held in trust, whether or not the funds are loaned or invested. [IC 21-1-1-2] (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 11)

CAPITAL ASSETS

As stated in the prior report, County officials did not provide a complete detail listing of land, buildings, equipment, and infrastructure as of December 31, 2006; nor did they provide a listing of the 2006 additions and deletions.

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 form. 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 County Auditors of Indiana, Chapter 14)

ACCOUNTS PAYABLE VOUCHER REGISTER

The original Accounts Payable Voucher Registers were not presented for audit for October 16, November 8, and December 5, 2006. Duplicate copies of the Accounts Payable Voucher Register were printed out and signed by the Commissioners in August 2007; however, the certification pages were stamped with the former County Auditor's, Sandra Vuko, signature, even though the register automatically printed the current Auditor's name under the signature line.

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

COUNTY AUDITOR
PORTER COUNTY
EXIT CONFERENCE

The contents of this report were discussed on October 16, 2007, with James K. Kopp, Auditor; Robert Harper, President of the Board of County Commissioners; Daniel Whitten, President of the County Council; Gwenn R. Rinkenberger, Board of Commissioners Attorney; and Lindy Wilson, Chief Deputy Auditor. The official response has been made a part of this report and may be found on pages 18 through 21.

The contents of this report were sent via certified mail on October 17, 2007, to Sandra Vuko, former Auditor.

COUNTY of PORTER

JAMES K. KOPP
AUDITOR

PORTER COUNTY AUDITOR
ADMINISTRATION CENTER
155 INDIANA AVE. • SUITE 204
VALPARAISO, INDIANA 46383

(219) 465-3445
JKOPP@PORTERCO.ORG

October 26, 2007

State Board of Accounts
100 North Senate Ave.
Indianapolis, IN 46204

Attn: Christy Griffin

Subj : Porter County Audit Report
2005 pay 2006

Gentlemen:

The Auditor's Office of Porter County has reviewed the report written by the State Audit Staff based in Porter County. I offer the following responses to demonstrate that the current Auditor Staff is committed to substantially correct the actual and implied financial deficiencies.

Tax Settlement:

For the last several years the State Auditor's Office has backed into settlement for Porter County because local records were in conflict and not necessarily submitted correctly. When 2007 assessed values were submitted, all data was frozen. No new assessed value, C of E's, 17 T's or changes from the Tax Board were processed.

Our billing, collection and settlement data base for 2006 pay 2007 will be run on the existing computer system and the new Hamer Auditor-Treasurer package purchased by Porter County in the spring of 2007. After tax bills are prepared, the common data base will allow all collections, changes and corrections to be tracked and in a logical, balanced procedure to insure accuracy and accountability. The computer system will balance daily.

Values that are required for the abstract, settlement or our accounting system will automatically feed to the proper location for inclusion in Financial Statements and the CAR Report.

We expect to have in place a fully functional assessment and accounting system in 2008. This system, running on a common data base, will greatly expedite the billing-collection process and its accuracy. Settlement could be made on a daily basis if we choose to do so, fully balanced and documented.

We will submit any unapproved forms as soon as we know that they are not part of the State Guidelines for Assessor-Auditor-Treasurer Software.

Auditor Tax Refund:

Our new Assessor-Auditor-Treasurer Software will allow us to track these items and be in compliance. Our current software does not have this ability and items have been lost as information is transferred between computer systems.

Tax Management Associates:

Funds will be distributed before year end to each effected taxing unit. TMA has been fully compensated for their work.

Disbursements Exceeded Appropriations:

We are working with the Commissioners, Council and County Attorney to establish a procedure where all funds appropriated go to a line item account. Commissioner Funds will ideally be moved from line item to line item as required to achieve the desired result of the original appropriation

Appropriations Postings:

The Auditor's Office has taken considerable care to be sure the budget hearing transcript and the recorded amounts match. Our accounting system has been updated to allow original and additional postings in a logical manner.

A purchase order system is being installed so that anything purchased or contracted for, can be tracked to budget line items and automatically encumbered at year end. Balances and detail are available on-line to individual departments in a read only mode. This allows for the responsible Department to track expenditures and payments.

Temporary Loan Payment:

The TAW Fund discrepancies were discovered in March, 2007, and have since been corrected and all loans repaid.

Tax Anticipation Warrants Interest:

An additional interest appropriation will be requested at the December Council Meeting for 2007 interest payable December 31, 2007.

Sale of County Hospital:

The County Attorney will respond to this item separately.

Excess Taxes Fund:

We are working to find errors and make corrections in this fund. We will transfer excess dollars in this fund as soon as we verify the detail is correct and get agreement from the Treasurer's Office. This will take place by year end.

Tax Sale Surplus Ledger:

This matter has been discussed with the employees involved and should resolve itself.

Excess funds are being researched and discrepancies should be resolved by year end.

Tax Sale Redemption Fund:

Appropriate steps have been taken to insure greater accuracy.

Condition of Records:

Various employees involved with drainage funds have been appraised of the problems associated with the funds. I believe sufficient oversight has been put in place to greatly reduce errors.

Payroll Fund:

The discrepancy was discovered in the spring and has since been corrected.

Employee's Service Records:

The tracking of payroll, sick days, vacation and personal days has been turned on in the software of the Auditor's Accounting System. Revised time cards are being printed for use in 2008 which meet current requirements. They will be submitted to the State Board of Accounts shortly.

The Courts will be on the County System in January, 2008.

An interface software has been written and installed to track the Sheriff's workforce within the County System.

Annual Report:

The Annual report was advertised as soon as it was completed and approved.

Congressional School Fund:

Interest will be calculated and distributed by year end.

Capital Assets:

A better tracking system has been put in place and should not be a problem after 2007.

A/P Voucher Register:

The original signed pages were not available in the Auditor's Office at the time of Audit. Since then it has been determined they were sent to storage. Duplicate copies were printed at the request of the State Board of Accounts.

As the newly elected County Auditor, I can only make representations for items that I have had control over since January 1, 2007. It is my belief that several items noted and some others have been addressed in a proper and business like manner.

The Auditor's Office will continue to strive for complete accuracy and accountability for the foreseeable future.

If you have any questions or comments, please contact the writer.

Sincerely,

James K. Kopp
Porter County Auditor