B35241

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

AUDIT REPORT

OF

COUNTY AUDITOR

PORTER COUNTY, INDIANA

January 1, 2008 to December 31, 2008

FILED
11/30/2009

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COUNTY OFFICIALS

Office	Official	Term
Auditor	James K. Kopp	01-01-07 to 12-31-10
President of the County Council	Robert Poparad	01-01-08 to 12-31-09
President of the Board of County Commissioners	Robert Harper	01-01-08 to 12-31-09

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF PORTER COUNTY

We have audited the records of the County Auditor for the period from January 1, 2008 to December 31, 2008, 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 2008.

STATE BOARD OF ACCOUNTS

September 28, 2009

ANNUAL REPORT

The 2008 County Annual Report (CAR), due on or before January 30, 2009, was not completed until July 23, 2009. In addition, the County's annual receipts and disbursements for 2008 were not published until July 30, 2009.

The CAR presented for audit contained numerous errors and omissions which required audit adjustments. Fifty-nine of two hundred thirty-five funds were not properly classified as to fund-type, four funds were omitted from the report, and one fund was entered twice. Twenty-six funds reported inaccurate ending cash and investment balances due to errors in entering the beginning cash balances, annual receipts, annual disbursements, or investment balances. These errors caused the ending cash and investment balance reported on the CAR for December 31, 2008, to exceed the Auditor's ledger balance by $14,131,555.

The CAR also did not include County offices which collect taxes, fines, fees and other receipts, which are to be reported and remitted to the Auditor regularly. The CAR includes a Supplemental CAR that is to be sent to these outside County offices. The form allows for the offices to report their receipts, disbursements, and ending cash balances to the Auditor for inclusion in the CAR. The Supplemental CAR was not distributed to the affected offices, therefore, their receipts, disbursements, and cash and investment balances were not included in the County's CAR. The ending cash and investment balances of these omitted offices totaled $44,912,055. Of this balance, $7,203,724 was in the sheriff's pension trust funds, and $36,569,922 was in agency funds. Agency funds account for assets held by the County as an agent for federal, state, and local governments, as well as other public and private entities. County officials approved the audit adjustments to the financial statements presented in 2008 Annual Financial Report.

IC 5-11-1-4(a) concerning annual reports, states in part: ". . . these reports shall be prepared, verified, and filed with the state examiner no later than thirty (30) days after the close of each fiscal year."

IC 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."

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)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The County prepared a Schedule of Federal Grant Receipts and Disbursements for 2008 that was materially inaccurate. We found 8 additional grant programs with combined expenditures of $1,296,538 that were not listed on the schedule. This represents 60% of the total federal expenditures detailed on the Schedule of Expenditures of Federal Awards. The County's grant schedule also did not include all of the required information necessary to properly identify all federal programs and expenditures including: CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

Circular No. A-133, Audit of States, Local Governments, and Non-Profit Organizations, Subpart C, has the following requirements for grantees:

The auditee shall:

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310.

§___.310 Financial statements.

(b) Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately.

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COUNTY ECONOMIC DEVELOPMENT INCOME TAX SUPPLEMENTAL DISTRIBUTION

Before October 2 of any year, the State of Indiana determines if the County is eligible for a supplemental distribution of county economic development income tax (CEDIT). Once the State of Indiana has determined a supplemental distribution may be made, the supplemental distribution must be made in January of the ensuing calendar year.

In January 2008 and February 2009, the County received $3,747,783.95 and $5,423,454.99, respectively, of supplemental distributions of CEDIT from the State of Indiana. Of the totals received, the County receipted and distributed $2,182,220.78 and $3,157,911.76, respectively, to the County's 11 civil units of government as instructed by the State. The remaining balances of $1,565,563.17 and $2,265,543.23, respectively, were receipted to the County's CEDIT Unallocated Fund (308). However, based on the instructions received from the State and IC 6-3.5-7-17.3, the supplemental distributions are to be deposited to the Rainy Day Fund. As of September 24, 2009, the County had not established a Rainy Day Fund in which to account for any CEDIT supplemental distributions received. A similar comment appeared in the prior report.

IC 6-3.5-7-17.3(b) states: "A supplemental distribution described in subsection (a) must be: (1) made in January of the ensuing calendar year; and (2) allocated in the same manner as certified distributions for deposit in a civil unit's rainy day fund established under IC 36-1-8-5.1."

EMPLOYEE SERVICE RECORDS

The County maintains Employee Service Records (General Payroll Form 99A) which serve as the employee's time card and absence summary. The absence summary portion, when completed, only documents the amount of the sick, vacation, and personal time used; it does not reflect sick, vacation and personal time earned.

The Auditor's computer system has a report available entitled "Employee Service Record," which has not been approved. This report reflects the beginning leave balances, leave accrued, leave used and ending leave balances. A comparison of the two reports revealed several differences:

1. For 9 of 23 employees tested, vacation leave used per the Employee Service Record was from 1 to 18 days more than what was reported on the computerized report.

2. For 5 of 23 employees tested, sick leave used per the Employee Service Record was from .5 to 3.5 days more than what was reported on the computerized report.

3. For 6 of 23 employees tested, personal leave used per the Employee Service Record was from .5 to 2 days more than what was reported on the computerized report.

4. For 11 of 23 employees tested, various leave used per the Employee Service Record was from .5 to 1.25 days less than what was reported on the computerized report.

The computerized "Employee Service Record" also reported when leave time was accrued. Per the County's policy, employees' annual leave time is accrued on their anniversary date which is their hire date. These records revealed the following differences with the approved policy:

1. For 11 of 23 employees tested, the accrued time recorded was from 3 to 163 days after the employees' anniversary dates.

2. For 3 of 23 employees tested, the accrued time was recorded from 2 to 101 days prior to the employees' anniversary dates. A similar comment appeared in the prior report.

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 1)

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)

TAX SALE SURPLUS FUND

When property is sold on tax sale, any money paid over and above the delinquent taxes, penalties, and interest owed 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. A similar comment appeared in the prior report.

The following deficiencies concerning accounting for the tax sale surplus were noted:

1. The Tax Sale Surplus Fund and the detail tax sale surplus ledgers were not reconciled at December 31, 2008.

2. Four claims from prior years and one claim in 2008 disbursed from the Tax Sale Surplus Fund still have not been posted as paid to the manually prepared detail tax sale surplus fund ledger.

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

4. Items over three years old have not been receipted into the General Fund as required under IC 6-1.1-24-7(d).

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 tax sale "purchaser" of the property. The transaction is also posted to a detail record equivalent to the "Tax Sale Report." This detail record has not been reconciled to the Tax Sale Redemption Fund to ensure that all activity has been properly posted. A similar comment appeared in the prior report.

Since the Tax Sale Redemption Fund is not reconciled to the detail record, the County is not able to detect discrepancies when they occur. At December 31, 2008, the Tax Sale Redemption Fund had a balance of $2,866.53; of that amount, only $929.91 could be identified; the remaining $1,936.62 could not 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)

EXCESS TAXES FUND

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

The detail of excess taxes paid and Treasurer's Schedule of Excess Tax Payments Received does not agree with the cash balance in the Excess Taxes Fund (43). At December 31, 2008, the Excess Taxes Fund had a negative cash balance of $359,631.69; however, the total of the remaining excess taxes reported on the Treasurer's Schedules of Excess Tax Payments Received for 2005, 2006, 2007, and 2008 is $167,795.12. The total of unclaimed excess payments that are over three years old and have not been transferred to the County General Fund as required is $272,256.65. The total difference between the Excess Taxes Fund negative cash balance and the detailed report is $799,683.46. A similar comment appeared in the prior report.

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)

CAPITAL ASSETS

County officials provided a Fixed Asset Inventory Report which included vehicles, land, buildings, and machinery and equipment. The report contained acquisition costs for all assets, except for the land; therefore, the report is incomplete. Costs of assets acquired in 2008 were included in the report; per officials, there were no asset deletions in 2008.

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)

TAX MANAGEMENT ASSOCIATES FUND

The County entered into a contract with Tax Management Associates (TMA) to perform a comprehensive review of business taxpayer returns. If the reviews result in additional property taxes collections 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 which established the TMA Collections Fund, after fees have been remitted to TMA, the fund balance is to be distributed to the affected taxing units as required by state law. The Auditor has not distributed any of the remaining fund balance to the taxing units. As of December 31, 2008, the TMA Collections Fund had a balance of $426,000. A similar comment appeared in the prior report.

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)

REMITTANCES OF CLERK COLLECTIONS

At December 31, 2008, the Seat Belt Violations Fund (322) had a balance of $152,616.50. A remittance to the Treasurer of State had not occurred as of September 24, 2009. The money collected for Class D infractions should be remitted to the State General Fund.

For each seatbelt violation under IC 9-19-10-2, IC 9-19-11-2, IC 9-19-11-3, a person commits a Class D infraction. IC 34-28-5-4 allows a court to enter a judgment of up to twenty-five dollars ($25) for each Class D infraction. All seatbelt violation cases would be considered moving traffic violations under IC 9-30-3-14 and would be required to be heard in a circuit, superior, county , city or town court or traffic violations bureau designated by these courts. Furthermore, IC 34-28-5-5(c) states that all funds collected as judgments for violations of statutes defining infractions shall be deposited in the state general fund. (The County Bulletin and Uniform Compliance Guidelines, October 2002)

The Clerk of the Circuit Court collects court costs and determines the percentage share for the State, County, and cities and towns. The County's and cities and towns' shares are then remitted to the Auditor for receipting into the County General Fund (001) and to the City and Town Court Costs Fund (126). Semiannually, the Auditor is to distribute to each city and town their share of the court costs as computed per IC 33-37-7-6(b). On February 14, 2008, only the January to May 2007 collections were remitted to the cities and towns. The remaining balance of $100,438.23 in Fund 126 as of December 31, 2008, consists of June through December 2007 and January through November 2008 collections.

IC 33-37-7-6(c) states: "The county auditor shall distribute semiannually to each city and town described in subsection (a) the amount computed for that city and town under STEP FOUR of subsection (b)."

AUDITOR TAX REFUNDS

After a taxpayer has paid property taxes, errors may be discovered resulting in a refund due the taxpayer. When this occurs, a claim for the refund is filed and recorded on a "Claim for Refund of Taxes" (County Form 17T), and the amount refunded is posted to the Refunds Fund (62). At settlement, tax collections that have been refunded from Fund 62 are reimbursed to the fund. Therefore, this fund will accumulate a deficit or negative cash balance until such time as the settlement is performed. A similar comment appeared in the prior report.

According to the Auditor's office, all disbursements posted to the Refunds Fund (62) from January 2007 until February 2008 should have been included in the final settlement distributed in May 2008. The cash balance of the Refunds Fund at February 28, 2008, was a negative $1,908,652 (overdrawn cash balance). The amount distributed to the Refunds Fund at settlement only totaled $1,321,447, which leaves a deficit balance after settlement of ($587,205). The cash balance of the Refunds Fund (62) at December 31, 2008, was a negative $1,804,518 (overdrawn cash balance). As of September 24, 2009, there had not been a settlement. 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 (County Form 17T) to the Refunds Fund cash balance. This account has not been reconciled since 2004. The difference between the cash balance and the refunds report continues to change due to the receipting of returned warrants and old outstanding checks back to the fund and due to not ensuring that the amount disbursed from the fund agrees to the amount receipted at settlement.

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)

ACCOUNTING FOR RECEIPTS

A review of the process for accounting for receipts in the Auditor's office revealed the following deficiencies:

1. The Auditor is not issuing receipts at the time of the transaction. Most collections are not receipted and recorded until the following day.

2. Bank deposits made by electronic funds transfers (EFT's) are not always recorded when the EFT notification is received. The delays in receipting and recording the EFT's were from two days to two weeks after notification was received.

3. It was noted that the Auditor is not providing the Treasurer a daily report of fees collected when remitting applications to pay. The report should include the total receipts by fund and the total type of payments collected (cash, check. credit card, EFT, etc.)

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 of Indiana, Chapter 14)

Money received by the county treasurer, either at the time received or at the time of each semiannual settlement, must be accounted for by the county auditor through the issuance of an application to pay, quietus and receipt originating in the auditor's office. It is the duty of the auditor to determine the proper fund and/or account to be credited in each instance and to show on each such instrument the source of the receipt and the name of the fund and/or account. Reports of fees collected and other documents supporting receipts must be preserved by the auditor as a part of the records of the office. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 3)

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 a 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 tax bills for the 2006 pay 2007 taxes were not due until January 11, 2008. On February 11, 2008, the Treasurer certified the amount of taxes collected on the County Treasurer's Certificate of Tax Collections, County Form No. 49TC. However, the settlement submitted by the Auditor's office to the State of Indiana was not approved until June 2, 2008. Multiple discrepancies existed that resulted in an $817,814.65 adjustment to balance the Auditor's tax records with the Treasurer's cash collections of this time period. Some of these 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 $5,512,173.

2. The amount reported on the computer system as "certificate of error - minus" was not in agreement with the amount reported on the settlement as "certificate of error issued during year - credit" by $4,951,226.

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. The County reported a $2,683,673 deduction adjustment on the settlement report for adjustments for abstract errors.

2. The certificate of errors reported on the settlement reports did not agree with the year end tax duplicate certificate of error totals. The real estate certificates of errors from the penalties were not included in the tax duplicate totals. In addition, the certificate of errors for mobile homes, personal property, railroads, and utilities are not reflected on their respective 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 Indiana Code 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)

UNAUTHORIZED TRANSFERS OF FUNDS

The Auditor requested that the Board of County Commissioners (Commissioners) declare several funds inactive and allow him to close them out. The memo stated that all of the funds had a zero balance. The Commissioners declared several of the funds inactive and authorized the Auditor to close them out based on the representation that the funds were currently inactive and had a zero balance. Seven of the twenty-three funds that were authorized to be closed out had cash balances which totaled $12,333.11 that was transferred to Housing of Federal Prisoners Fund (217). The Commissioners specified that eight more funds on the Auditor's request list not be closed. Four of these funds' cash balances which totaled $15,898.60 were also transferred to Fund 217. In addition, the County Council minutes presented did not include approval of these transfers.

Payments or transfers which are not authorized by statute, ordinance, resolution, or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

COUNTY AUDITOR
PORTER COUNTY
EXIT CONFERENCE

The contents of this report were discussed on October 6, 2009, with James K. Kopp, Auditor; and Alizabeth Bailey, Deputy Auditor.