

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

EXAMINATION REPORT
OF
NORTH TOWNSHIP
LAKE COUNTY, INDIANA
January 1, 2007 to December 31, 2010



FILED

05/05/2011

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OFFICIALS

Office

Official

Term

Trustee

Frank J. Mrvan

01-01-07 to 12-31-14

Chairman of the
Township Board

Richard Novak

01-01-07 to 12-31-11



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF NORTH TOWNSHIP, LAKE COUNTY, INDIANA

We have examined the financial information presented herein of North Township (Township), for the period of January 1, 2007 to December 31, 2010. The Township's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the Township for the years ended December 31, 2007, 2008, 2009, and 2010, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

March 1, 2011

NORTH TOWNSHIP, LAKE 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, 2007, 2008, 2009, And 2010

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds:				
Township	\$ 377,280	\$ 589,217	\$ 898,377	\$ 68,120
Dog	359	-	-	359
Township Assistance	751,638	3,528,359	3,916,992	363,005
Park and Recreation	189,187	898,622	1,476,363	(388,554)
Cumulative Recreation	976,986	1,640,029	1,941,553	675,462
Township Nonreverting	1,462	12,619	9,430	4,651
Park Nonreverting	7,160	-	-	7,160
Park Bond	-	2,032,737	1,484,634	548,103
Fiduciary Funds:				
Township Miscellaneous	-	9,703	9,703	-
Payroll Withholdings Assistance	-	528,586	528,254	332
Payroll Withholdings Park	-	296,931	291,201	5,730
Totals	<u>\$ 2,304,072</u>	<u>\$ 9,536,803</u>	<u>\$ 10,556,507</u>	<u>\$ 1,284,368</u>

	Cash and Investments 01-01-08	Receipts	Disbursements	Cash and Investments 12-31-08
Governmental Funds:				
Township	\$ 68,120	\$ 1,477,475	\$ 1,446,608	\$ 98,987
Dog	359	-	-	359
Township Assistance	363,005	6,518,643	5,983,978	897,670
Park and Recreation	(388,554)	1,907,088	1,567,655	(49,121)
Cumulative Recreation	675,462	1,451,981	1,722,158	405,285
Township Nonreverting	4,651	51,775	53,690	2,736
Park Nonreverting	7,160	-	-	7,160
Park Bond	548,103	290	404,052	144,341
Fiduciary Funds:				
Payroll Withholdings Assistance	332	481,638	481,970	-
Payroll Withholdings Park	5,730	268,164	273,894	-
Totals	<u>\$ 1,284,368</u>	<u>\$ 12,157,054</u>	<u>\$ 11,934,005</u>	<u>\$ 1,507,417</u>

The accompanying notes are an integral part of the financial information.

NORTH TOWNSHIP, LAKE 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, 2007, 2008, 2009, And 2010
(Continued)

	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
Governmental Funds:				
Township	\$ 98,987	\$ 1,254,925	\$ 1,053,926	\$ 299,986
Dog	359	-	-	359
Township Assistance	897,670	5,801,774	6,055,603	643,841
Park and Recreation	(49,121)	1,723,234	1,652,311	21,802
Cumulative Recreation	405,285	536,320	546,064	395,541
Township Nonreverting	2,736	59,020	50,198	11,558
Park Nonreverting	7,160	7,484	6,390	8,254
Park Bond	144,341	30,014	138,336	36,019
Fiduciary Funds:				
Payroll Withholdings Assistance	-	443,758	430,509	13,249
Payroll Withholdings Park	-	238,042	234,532	3,510
Totals	<u>\$ 1,507,417</u>	<u>\$ 10,094,571</u>	<u>\$ 10,167,869</u>	<u>\$ 1,434,119</u>

	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
Governmental Funds:				
Township	\$ 299,986	\$ 1,288,514	\$ 1,435,332	\$ 153,168
Dog	359	-	-	359
Township Assistance	643,841	3,819,639	4,214,055	249,425
Levy Excess	-	29,214	-	29,214
Park and Recreation	21,802	1,537,408	1,505,735	53,475
Cumulative Recreation	395,541	459,511	674,889	180,163
Township Nonreverting	11,558	75,600	58,156	29,002
Park Nonreverting	8,254	-	-	8,254
Park Bond	36,019	10,347	10,564	35,802
Fiduciary Funds:				
Payroll Withholdings Assistance	13,249	459,729	463,986	8,992
Payroll Withholdings Park	3,510	257,288	279,741	(18,943)
Totals	<u>\$ 1,434,119</u>	<u>\$ 7,937,250</u>	<u>\$ 8,642,458</u>	<u>\$ 728,911</u>

The accompanying notes are an integral part of the financial information.

NORTH TOWNSHIP, LAKE COUNTY
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The Township was established under the laws of the State of Indiana. The Township provides the following services: 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.

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.

NORTH TOWNSHIP, LAKE COUNTY
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Township contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the Township authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

Note 7. Short-Term Debt

Tax Anticipation Warrants

Due to the assessment errors, North Township issued Tax Anticipation Warrants in the Township Assistance Fund to help offset the delay in receiving property taxes. The Tax Anticipation Warrants were due to mature on December 31, 2010. The Tax Anticipation Warrants were extended at the December Township meeting. The outstanding balance at year end was \$800,000. Subsequently, the warrants were paid following the receipt of property taxes in January 2011.

Loans Between Funds

Due to the delay in receiving general property tax distributions, the Township made temporary loans between funds during 2007 through 2010. There were ten loans between funds totaling \$1,219,376 that have not been repaid as of December 31, 2010.

NORTH TOWNSHIP, LAKE COUNTY
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 8. Subsequent Event

Reassessment and Property Taxes

Due to errors in assessments of North Township, the assessed valuations of Lake County were not finalized by February 15, 2010, as required. Therefore, the 2009 pay 2010 property tax rates and levies, as well as related budget orders for 2010, were not established until August 2010. A similar situation occurred in the prior two years. The County issued a provisional billing due May 10, 2010, based upon the 2008 pay 2009 tax rates. The final reconciliation billing with the tax rates for 2009 pay 2010 was due November 30, 2010. Distribution of the final settlement was received by the Township on January 20, 2011. This situation has hampered the Township's ability to appropriately budget and expend funds and has forced the Township to extensively borrow in anticipation of tax revenues.

NORTH TOWNSHIP, LAKE COUNTY
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2010

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 159,516
Land improvements	760,473
Buildings	748,825
Machinery and equipment	759,095
Vehicles	<u>126,250</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 2,554,159</u>

NORTH TOWNSHIP, LAKE COUNTY
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2010

The Township has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Bonds payable:		
General obligation bonds:		
Park District Bonds, 2007	\$ <u>950,000</u>	\$ <u>285,500</u>

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS

LATE FEES, INTEREST, FINANCE CHARGES, AND PENALTIES

North Township Officials have three credit cards that are used for various Township, Park, and Township Assistance purchases. These purchases include travel for conferences and office supplies, among other items. Officials making credit card purchases must submit the receipts associated with these purchases to the proper individual in a timely fashion to avoid late fees and interest charged by the credit card company. Similar rules apply to the payment of quarterly federal taxes. The Township must institute more effective controls to ensure the proper amount of taxes are paid in the allotted amount of time.

The prior report indicated that the Township paid penalties and interest to the Indiana Department of Revenue for the late payment of Indiana withholding taxes. The Trustee, Frank J. Mrvan, is responsible for signing checks and governmental forms for the Township.

North Township paid late fees, interest, and finance charges totaling \$405.99 on credit card purchases made during 2007, 2008, 2009, and 2010. These fees, interest, and finance charges were attributed to the late payment of credit card claims and failure to pay the entire balance when due. We requested the Trustee reimburse the Township \$405.99 for the credit card late fees, interest, and finance charges. (See Summary, page 24)

The Township is responsible for paying federal withholding taxes for each payroll and filing a quarterly report on these taxes. The amount to be paid is based each payroll during that quarter. The tax payments for the fourth quarter of 2006 were either late or less than the required amounts. The Township paid a penalty of \$868.86 on June 25, 2007, as a result of this late or underpayment. We requested the Trustee reimburse the Township \$868.86 for the federal withholding taxes penalty payment. (See Summary, page 24)

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. 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)

ALCOHOL PURCHASES

Our review of credit card purchases revealed North Township purchased alcohol on three occasions during 2007. The total cost of these purchases was \$42.11. One purchase was made for a Veteran's luncheon. The other two purchases were made at restaurants on official business. We requested the Trustee reimburse the Township \$42.11 for the alcohol purchases. (See Summary, page 24)

Purchases of alcoholic beverages may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

BOND COVERAGE

The Trustee has official bonds for \$50,000 from Auto Owners Insurance Company, Bond Number 66300389, covering November 1, 2006 to November 1, 2007; November 1, 2007 to November 1, 2008; November 1, 2008 to November 1, 2009; November 1, 2009 to November 1, 2010; and November 1, 2010 to November 1, 2011.

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

AMOUNT OF OFFICIAL BOND COVERAGE FOR TRUSTEE

The Trustee had official bond coverage of \$50,000 each year. The required coverage should have been \$300,000 based upon the receipts in the prior calendar year.

Until July 1, 2009, IC 5-4-1-18 stated in part:

"(c) The fiscal bodies of the respective units shall fix the amount of the bond of . . . township trustees . . . as follows:

- (1) The amount must equal fifteen thousand dollars (\$15,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2).
- (2) The amount may not be less than fifteen thousand dollars (\$15,000) nor more than three hundred thousand dollars (\$300,000) . . ."

Effective July 1, 2009, IC 5-4-1-18 states in part:

"(c) Except as provided in subsections (h) and (i), the fiscal bodies of the respective units shall fix the amount of the bond of . . . township trustees . . . as follows:

- (1) The amount of annual coverage must equal thirty thousand dollars (\$30,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2).
- (2) The amount of annual coverage may not be less than thirty thousand dollars (\$30,000) nor more than three hundred thousand dollars (\$300,000) unless the fiscal body approves a greater amount of annual coverage for the officer or employee. . . ."

ANNUAL REPORT

1. The Annual Reports prepared by the Township were incomplete and did not include all funds and activity of the Township. Two funds were not reported on the Annual Reports of the Township: Township Assistance Payroll Withholdings Fund and Park Payroll Withholdings Fund. A similar comment appeared in the prior report. The cash and investments page (Part 4) was left blank in both the 2009 and 2010 Annual Reports.
2. The fund activity listed on the Annual Report did not reflect the fund activity of the Township's records. The receipts in 2007 for the Township Assistance, Cumulative Park, Park and Recreation, and Park Bond funds, as well as the disbursements for the Park Bond Fund, reported on the Annual Report differed from the Township's records. The receipts in 2008 listed on the Annual Report in the Park and Recreation Fund did not agree to the Township's records. The 2009 Annual Report excluded the Park Bond Fund, which had a balance and activity in the Township's records. The 2010 Annual Report did not disclose any receipts listed in the Township's records for the Levy Excess Fund.

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

3. Items in the Annual Report were not categorized properly. Temporary loans between funds and permanent transfers in some instances were classified as miscellaneous receipts and as other services and charges in the disbursements. The 2009 and 2010 Annual Reports reported transfers in and transfers out, but these did not agree. These misclassifications make verifying incoming and outgoing transfers difficult.
4. The Annual Report did not properly reflect the Township's debt as of December 31, 2010. The report did not disclose the \$950,000 in outstanding park bonds at year end.

When the trustee prepares the annual report mentioned above, the trustee shall also prepare an abstract of receipts and disbursements on forms prescribed by the State Board of Accounts. The abstract shall include; (1) the sum of money in each fund of the township at the beginning of the year, (2) the sum of money received in each fund of the township during the year, (3) the sum of money paid from each fund of the township during the year, (4) the sum of money remaining in each township at the end of each year, (5) a statement of receipts, showing their source and, (6) a statement of expenditures, showing the combined gross payment, according to classification of expense to each person. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

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 Townships, Chapter 13)

BANK ACCOUNT RECONCILIATIONS

The following bank reconciliation deficiencies were noted:

1. Bank account reconciliations were not completed properly. Reconciling items included with the bank reconciliations were not resolved timely. Officials did not perform any follow up action on these reconciling items. Additionally, the monthly reconciliations were not reviewed by another employee.
2. The Township has seven bank accounts. Each bank account contains certain Township funds. For example, the two Civil Township bank accounts contain the activity of the following funds: Township, Dog, Township Nonreverting, Township Levy Excess, and Township Miscellaneous. When the bank account reconciliations were prepared, Township Officials were reconciling to the overall bank account balances of the Township, not the individual bank account balances to the balances of the funds that were included in that bank account which means that the system could indicate that the funds are reconciled when they are not. Additionally, amounts deposited into the wrong bank account or checks written from the wrong bank account might not be found in a timely manner.
3. The reconciliations performed at December 31, 2010, listed deposits in transit that had previously cleared the bank or had been deposited into a different bank account. For example, a receipt for general property taxes was deposited and cleared the bank on June 14, 2010; however, the receipt appeared on the December 31, 2010 bank reconciliation as a deposit in transit. One park bank account pays the State withholdings for payroll. A township bank account and a township assistance bank account did not reimburse

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

the park bank account for their respective shares of State withholding taxes. The December 31, 2010 list of outstanding deposits shows two of these transactions as in transit. Further review showed both of these transactions had been deposited into the park bank account.

4. The outstanding checks listing and list of deposits in transit contained negative reconciling items that had been voided. Rather than removing the transactions when they were voided, the Township listed them as reconciling items.

IC 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."

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 Townships, Chapter 13)

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 Townships, Chapter 13)

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)

TIMELY RECORDKEEPING

The Township did not issue receipts for interest earned in a timely manner. The Township issued receipts in some instances three months after the interest was reported on the bank statements which may indicate that bank reconciliations are not performed in a timely manner.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

OVERDRAWN CASH BALANCES

The Park and Recreation Fund was overdrawn in 2007 and 2008 by \$388,554 and \$49,121, respectively. The Payroll Withholdings Park Fund was overdrawn in 2010 by \$18,943.

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)

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

DISBURSEMENTS EXCEEDED APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Year	Excess Amount Expended
Park and Recreation (1312)	2008	\$ 18,237

A similar comment appeared in the prior report.

IC 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."

UNTIMELY PAYMENTS

Payments were not made in a timely manner from the Township Assistance Fund to various landlords. Payments were made to the landlords 49 to 86 days after receiving the purchase order. Forty-five percent of the payments reviewed were paid late. A similar comment appeared in the prior report.

All townships are now required to pay township assistance. Such claim or claims shall be carefully reviewed and approved by the trustee as the administrator of township assistance. The township trustee shall pay claims against the township for township assistance in the same manner that other claims against the township are paid. The township trustee, when authorized to pay claims directly to vendors, shall pay a claim within forty-five (45) days. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 6)

CLAIMS DEFICIENCIES

1. Some credit card invoices did not have receipts attached as supporting documentation for the disbursement. Attached receipts did not always state the purpose for the disbursement. A similar comment appeared in the prior report.
2. Not all claims were listed on the payables listing signed by the Trustee.
3. The documentation for most of the claims examined did not clearly identify the fund used to pay the disbursement.

Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payment should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting . . . Payments which do not have proper itemization showing the business nature of the claim may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

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 Townships, Chapter 13)

PAYROLL DEFICIENCIES

The following deficiencies were noted in the examination of payroll:

1. Township Form 17, Resolution Establishing Salaries of Township Officials and Employees, does not include longevity paid to all positions.
2. The Form W-2 did not report deferred compensation for the four employees who have deferred compensation withheld from their pay.

A similar comment appeared in the prior report.

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)

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 17)

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

OLD OUTSTANDING CHECKS (WARRANTS)

Our review of the bank reconciliations as of December 31, 2010, noted warrants outstanding in excess of two years. The Township Assistance bank accounts had 24 warrants totaling \$6,172.85 with dates from 2006 to 2008. The Park bank accounts had 21 warrants totaling \$2,204.61 with dates from 2005 to 2008. The Township bank accounts had 12 warrants totaling \$5,713.81 with dates from 2007 to 2008.

IC 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. . . ."

IC 5-11-10.5-3 states:

"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) 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."

IC 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 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."

POSTING OF INTEREST PAID ON DEBT

The Township pays the principal and interest payments of the park bond debt from the Cumulative Park Fund. The Township did not separately identify the breakdown of the payments for principal and interest on the payment of the park bond debt. When posted to the ledger, the principal and interest were recorded as one lump sum payment from the capital outlay object instead of the interest on debt being posted to the other services and charges object. The January 13, 2009 principal and interest payment of \$132,900 was paid from the Township Assistance Fund. The \$132,900 was not repaid to the Township Assistance Fund from the Cumulative Park Fund during 2009 or 2010. Therefore, as of December 31, 2010, the Cumulative Park Fund (1390) owes the Township Assistance Fund (840) \$132,900 since January 13, 2009, for the payment of principal and interest on the bond issue.

The payments of interest on tax anticipation warrants were posted to an incorrect appropriation line item instead of being posted to series 300, other services and charges (debt service interest on loans). Some payments were posted to series 600, transfers and other, and other payments were posted to series 100, personal services.

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

IC 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."

IC 36-1-8-4 concerning temporary loans states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs. (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . ."

"(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following: (1) Passes an ordinance or a resolution that contains the following: (A) A statement that the fiscal body has determined that an emergency exists. (B) A brief description of the grounds for the emergency. (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs. (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

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)

TEMPORARY LOANS BETWEEN FUNDS

A temporary loan of \$100,000 was made on May 23, 2006, from the Cumulative Park Fund (1390) to the Park and Recreation Fund (1312) and not repaid by December 31, 2006. The Township Board on December 18, 2007, approved extending the Park and Recreation Fund temporary loan from the Cumulative Park Fund until June 30, 2008. The loan has been repaid as of November 1, 2010. The Township Board Minutes did not indicate that an emergency existed to extend the repayment date past June 30, 2008.

The following deficiencies were noted in Temporary Loans Between Funds:

Loans Between Funds Recorded in the Ledger But Not Approved by the Township Board

<u>Years</u>	<u>Number of Loans</u>	<u>Total Amount</u>
2007	5	\$ 700,000
2008	1	100,000
2009	3	130,000
2010	1	110,000

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

Temporary Loans Between Funds that are Not Repaid as of December 31, 2010

<u>Years</u>	<u>Loan Amount Made, Not Repaid</u>
2007	\$ 175,000.00
2008	609,375.55
2009	325,000.00
2010	110,000.00

For the \$1,219,375.55 in loans between funds that are still outstanding as of December 31, 2010, the Township Board Minutes did not indicate any emergency extension for repayment.

There were loans between funds in 2008, 2009, and 2010 which were improperly recorded in miscellaneous receipts in the Ledger and not reported in transfers between funds or loans between funds.

A bank transfer of \$125,000 was recorded in October 2010 as a transfer of funds to and from the Township Fund. However, the transfer was not between funds, but a transfer between bank accounts. Recording the bank transfer as a receipt and disbursement overstates both by \$125,000 in 2010.

A similar comment appeared in the prior report.

IC 36-1-8-4 concerning temporary loans states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs. (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . ."

"(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following: (1) Passes an ordinance or a resolution that contains the following: (A) A statement that the fiscal body has determined that an emergency exists. (B) A brief description of the grounds for the emergency. (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs. (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

DOG FUND

The Township's Dog Fund has a balance of \$359 since 2006 and was not closed out during 2007 in accordance with the procedures in Public Law 162, House Enrolled Act 1001, effective July 1, 2006.

Public Law 162 provides non-code closeout provisions and provides in Section 51 (d) On or before August 1, 2006, the county auditor of each county shall distribute to the township trustees of the townships located in the county: (1) money distributed to the county under subsection (b); and (2) any

NORTH TOWNSHIP, LAKE COUNTY
EXAMINATION RESULTS AND COMMENTS
(Continued)

money remaining in the county dog fund. An equal share of the money described in this subsection shall be distributed to each township trustee. (e) A township trustee who receives a distribution under subsection (d) shall use the distribution: (1) to pay claims filed under IC 15-5-9-9.1 (before its repeal by this act); (2) to pay fees and charges under IC 15-5-9-10 (before its repeal by this act); (3) to provide funding for the humane society designated by the county legislative body under IC 15-5-9-8(d) (before its repeal by this act) to receive a part of each dog tax payment; or (4) if the county legislative body did not designate a humane society under IC 15-5-9-8(d) (before its repeal by this act), to provide funding for the township general fund. (f) If any part of the money distributed to a township trustee under subsection (d) has not been not expended by July 1, 2007, for a purpose allowed under subsection (e), the township trustee shall distribute the remainder of the distribution received under subsection (d) to the county treasurer. If the county option dog tax under IC 6-9-39, as added by this act, is in effect in the county on July 1, 2007, the county treasurer shall deposit the money in the county option dog tax fund established under IC 6-9-39-6(a), as added by this act. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 7)

PARK BOND DEBT SERVICE FUND

The Township issued \$1,500,000 of Park District Bonds Series 2007 on May 17, 2007, for construction at Wicker Park. The bond proceeds were placed in a new fund called Park Bond Fund. Township Officials obtained an appropriation of \$1,500,000 to make construction and bond issuance cost payments from the Park Bond Fund.

The bond issue is being repaid over seven years, with the last payment set for January 15, 2014. The Township began making bond principal and interest payments on July 9, 2007, from the Cumulative Recreation Fund which has a separate tax levy. The January 15, 2009 bond principal and interest payment of \$132,900 was paid from the Township Assistance Fund. The Cumulative Recreation Fund has not reimbursed the Township Assistance Fund for the bond principal and interest payment as of December 31, 2010. Township Officials have not established a separate Park Bond Debt Service Fund from which to pay the bond principal and interest payments.

IC 36-10-7.5-25 states:

"(a) To raise money to pay all bonds issued under this chapter, the fiscal body shall levy annually a special tax upon all of the real and personal property located in the district sufficient to pay the principal of the bonds as the bonds mature, including accrued interest. The fiscal body shall have the tax to be levied each year certified to the auditor of the county in which the township is located at the time for certification of tax levies. The tax shall be collected and enforced by the county treasurer in the same manner as other taxes are collected and enforced.

(b) As the tax is collected, the tax shall be accumulated and kept in a separate fund to be known as the district bond fund. The tax shall be applied to the payment of the bonds and interest as the bonds mature and may not be used for another purpose."

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 Townships, Chapter 13)

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 13)

NORTH TOWNSHIP, LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on March 9, 2011, with Frank J. Mrvan, Trustee; Richard Novak, Chairman of the Township Board; and Lori Polgar, Director of Operations. The official response has been made a part of this report and may be found on pages 22 and 23.

NORTH TOWNSHIP TRUSTEE

2007-2010 AUDIT RESPONSE

LATE FEES, INTEREST, FINANCE CHARGES AND PENALTIES

THE TOWNSHIP WILL BETTER TRACK THE CREDIT CARD INVOICES TO ASURE THEY ARE PAID ON TIME AND IN FULL.

IT WILL ALSO CHECK ITS FEDERAL WITHHOLDING REPORTS AND SEE THAT THEY ARE FILED ON TIME.

ALCOHOL PURCHASES

THIS HAS BEEN CORRECTED

BOND COVERAGE

THE TRUSTEE WILL HAVE HIS OFFICAL BOND INCREASED TO THE REQUIRED AMOUNT OF \$300,000.00

ANNUAL REPORT

ALL ANNUAL REPORTS WILL BE CORRECTED AND REFILED AND WILL BE CORRECT IN THE FUTURE

BANK ACCOUNT RECONCILIATIONS

BANK RECONCILIATIONS WILL BE REDONE FROM THE BEGINNING OF 2007 AND THROUGH 2010

AND ALL ADJUSTMENTS WILL BE MADE

TIMELY RECORDKEEPING

THE TOWNSHIP STAFF WILL APPLY THE INTEREST FOR THE BANK STATEMENTS AS THEY ARE RECEIVED

OVERDRAWN CASH BALANCES

IN 2007, 2008 AND AGAIN IN 2010 THE TOWNSHIP RECEIVED ITS FINAL SETTLEMENT AFTER DECEMBER 31. IF THEY HAD RECEIVED THEIR SETTLEMENT ON TIME THE CASH BALANCES WOULD ALL HAVE BEEN POSITIVE.

DISBURSEMENTS EXCEEDING APPROPRIATIONS

THE TOWNSHIP WILL MAKE SURE IT WILL STAY WITHIN ITS APPROPRIATION

UNTIMELY PAYMENTS

THIS ALSO HAS TO DUE WITH TAX ADVANCES AND TAX DRAWS. THE TOWNSHIP WITH ITS LIMITED BORROWING ATHUORITY CAN NOT IN SOME CASES KEEP ENOUGH CASH ON HAND TO MEET ITS PAYROLL AND STAY CURRENT WITH ITS CLAIMS.

(Audit response cont.)

CLAIMS DEFICIENCIES

ALL CLAIMS WILL BE REVIEWED BEFORE THEY SENT FOR PAYMENT

PAYROLL DEFICIENCIES

ALL COMPENSATION PAID TO EMPLOYEES WILL BE INCLUDED ON THE TOWNSHIP FORM 17, SALARY RESOLUTION AND FORM W2 WILL BE REPORTED PROPERLY

OLD OUTSTANDING CHECKS (WARRANTS)

AS THE BANK RECONCILIATIONS ARE DONE, A LISTING OF ALL WARRANTS OVER 2 YEARS WILL BE LISTED AND TAKEN TO THE TOWNSHIP BOARD AND GET AUTHORITY TO CANCEL AND MOVE THE FUNDS BACK TO THE PROPER ACCOUNT

POSTING OF INTERST PAID ON DEBT

ALL INTEREST AND PRINCIPLE PAYMENTS WILL BE POSTED PROPERLY

TEMPORARY LOANS BETWEEN FUNDS

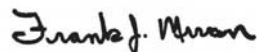
ALL TEMPORARY LOANS WILL BE REVIEWED AND REPAID TO THE PROPER FUNDS

DOG FUND

THE FUND WILL BE TRANSFERRED TO THE GENERAL FUND AS REQUIRED BY STATUTE

PARK BOND DEBT SERVICE FUND

SINCE THE BOND IS TO BE REPAID FROM THE PARK CUMULATIVE FUND, NO PARK BOND DEBT FUND WAS ESTABLISHED. THE TOWNSHIP HAS ADVERTIZED FOR A PARK BOND AS A PART OF ITS ANNUAL BUDGETING. BUT HAS NOT SET A ANNUAL RATE



Frank J. Mrvan
North Township Trustee

NORTH TOWNSHIP, LAKE COUNTY
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Frank J. Mrvan, Trustee:			
Late Fees, Interest, Finance Charges, and Penalties, page 11	\$ 1,274.85	\$	\$
Alcohol Purchases, page 11	42.11		
 Paid by Frank J. Mrvan, Trustee:			
March 1, 2011, Receipt 3506		<u>1,316.96</u>	<u>-</u>
 Totals	<u>\$ 1,316.96</u>	<u>\$ 1,316.96</u>	<u>\$ -</u>