

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

AUDIT REPORT

OF

COUNTY TREASURER

STARKE COUNTY, INDIANA

January 1, 2010 to December 31, 2010



**FILED**

09/06/2011



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COUNTY OFFICIALS

| <u>Office</u>                                     | <u>Official</u>      | <u>Term</u>          |
|---|----------------------|----------------------|
| Treasurer   | Linda L. Belork      | 01-01-09 to 12-31-12 |
| President of the<br>County Council                | Mark C. Smith        | 01-01-10 to 12-31-11 |
| President of the Board of<br>County Commissioners | Daniel D. Bridegroom | 01-01-10 to 12-31-11 |



**STATE OF INDIANA**  
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TO: THE OFFICIALS OF STARKE COUNTY

We have audited the records of the County Treasurer for the period from January 1, 2010 to December 31, 2010, 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 Starke County for the year 2010.

STATE BOARD OF ACCOUNTS

August 24, 2011

COUNTY TREASURER  
STARKE COUNTY  
AUDIT RESULTS AND COMMENTS

**FINANCIAL ACCOUNTING DEFICIENCIES**

The following are deficiencies identified with the recording of financial activity in the County's ledgers and reports.

The County Treasurer is required to keep records so that the money belonging to each fund is shown separately and money received for taxes is kept as a separate item until after settlement and transfer to the various funds has been made. The Treasurer is also responsible for bank reconciliations using this information. This makes it imperative for the Treasurer to have adequate records and keep them properly.

The Treasurer's Daily Balance of Cash and Depositories, Form 47, is the record prescribed to reflect the daily receipts and disbursements, total amount of cash and investments on hand, and a proof of the financial condition of the Treasurer's office at the close of each day. For the first 7 months in 2010, a hard copy of the Form 47 was manually completed. Starting in August the form was created and completed electronically.

Monthly the Treasurer is to prepare a report showing the financial condition of the office as of the last day of the preceding month. The Monthly Financial Report, Form 47TR, has been prescribed by State Board of Accounts for this purpose. The financial information is abstracted from Form 47, outstanding warrants, and balances from bank statements.

When tracing between Form 47 and Form 47TR we found the following unexplained variances:

|                | <u>Form47 balance</u> | <u>Form47TR balance</u> | <u>Variance</u> |
|----------------|-----------------------|-------------------------|-----------------|
| January 2010   | \$ 14,328,029         | \$ 14,327,529           | \$ 500          |
| February 2010  | 14,059,091            | 14,058,591              | 500             |
| March 2010     | 14,649,703            | 14,649,203              | 500             |
| April 2010     | 17,211,638            | 17,211,138              | 500             |
| May 2010       | 25,108,898            | 25,108,398              | 500             |
| June 2010      | 15,151,665            | 15,197,030              | 45,365          |
| July 2010      | 14,874,746            | 14,911,250              | 36,504          |
| August 2010    | 15,660,715            | 15,482,547              | 178,168         |
| September 2010 | 16,064,108            | 11,578,255              | 4,485,853       |
| October 2010   | 21,264,174            | 16,029,611              | 5,234,563       |
| November 2010  | 22,541,145            | 18,558,207              | 3,982,938       |
| December 2010  | 16,725,392            | 14,633,113              | 2,092,279       |

Through further testing of Form 47 we noted several corrections for posting errors that were undocumented, unexplained and could not be traced to verify their validity. This included an undocumented posting in January 2010 for \$523,619. Also, we noted an error in the electronic version of Form 47 which caused various formulas to not carry forward correctly. The effect of this was incorrect balances carried forward. We could not determine if proper corrections to the balances as a result of this error had been made.

COUNTY TREASURER  
STARKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

We also noted numerous errors in the preparation of Form 47TR which included the unexplained variances found in the schedule above as well as unexplained variations of balances within the form itself. We noted several instances where a balance that is used in various places on the form for proofing purposes was different.

These exceptions left us unable to rely on the financial data provided in these ledgers and reports as well as the resulting bank reconcilements using this information.

Instead of relying on the Treasurer's bank reconciliation at December 31, 2010, we performed a reconciliation to the bank statements using the County Auditor's funds ledger, unsettled receipts, receipts in transit, and outstanding check list. The resulting unexplained variance was \$890,956 cash necessary to balance, and is material to the financial statements.

After being granted access to the County's bank account statements and depository information, the County Auditor was able to investigate the material variance discussed above. The Auditor identified errors made in the recordkeeping of payroll withholdings. Beginning in March 2010 and continuing to 2011, there was a failure to post the entries pertaining to the remittance of various payroll withholdings to the proper authorities. The Auditor has taken the necessary steps to remedy this situation, and has made corrections totaling \$869,050 for 2010, and \$614,672 for 2011 in the County's ledger. At present the remaining unexplained variance from 2010 is \$21,906.

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 Treasurers, Chapter 10)

At all times, the manual and 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 County Treasurers, Chapter 10)

***INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted several material deficiencies in the internal control system of the Starke County Treasurer related to financial transactions and reporting.

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the County to reduce risks to achievement of financial reporting objectives. The County has not separated incompatible activities related to receipts, disbursements, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the County's audited financial statements and then determining how those identified risks should be managed. The County has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.

COUNTY TREASURER  
STARKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

3. Monitoring of Controls: Effective internal control over financial reporting requires the County Commissioners to monitor and assess the quality of the County's system of internal control. The Commissioners have not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the County at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the County has no process to identify or communicate corrective actions to improve controls.

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 Treasurers, Chapter 10)



COUNTY TREASURER  
STARKE COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on August 10, 2011, with Linda L. Belork, Treasurer. The official response has been made a part of this report and may be found on page 8.

The contents of this report were discussed on August 10, 2011, with Katherine Chaffins, Auditor; Daniel D. Bridegroom, President of the Board of County Commissioners; and Mark C. Smith, President of the County Council.

The contents of this report were discussed on August 24, 2011, with Katherine Chaffins, Auditor, and Mark. C. Smith, President of the County Council.

June 3, 2011

Dear Kelly,

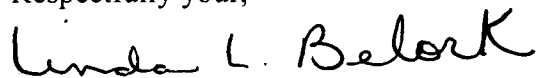
I am responding to your Audit result and comments for the Treasurers office. As for as the Dailey Cash Balance sheets go I have had five different people in that position in 2010 and it is not an easy position to fill it is very demanding. I have only one fill time deputy and some part time help. In 2010 it was a continuation of staff changing. We were also doing the cashbook by hand; t I then found out that there was a computer version of the cashbook and I got approved for using it. Once I got the formulas correct it is going well. And my 47 TR's are being done on time. I have the right people in the right place but I can not say how long they will stay with all the friction between other office holders and Commissioners.

It makes everything harder when you do not get cooperation out of the County Commissioners or Auditors Office. As you know communication is a tool for success and as you also know that has been impossible with both the Commissioner and Auditors office only wants to see you up to fail.

I am doing the best that I can with the staff I have. I am still working short handed but Robin my full time deputy is doing a great job and my part time person Jenny is also doing a good job. I just want to do a good job.

Thank you Kelly for your impute during your Audit.

Respectfully your,



Linda L. Belork  
Starke County Treasurer