

EXECUTIVE SESSION

Friday, September 9, 2011

The Starke County Board of Commissioners meet in an Executive Session, at 4:30PM, in the office of the County Auditor, Knox, IN with Dan Bridegroom and Kathy Norem present, and the following proceedings were held to wit:

Also present at the meeting were Starke County Council President, Mark Smith, and Starke County Attorney, Marty Lucas.

I can attest, the only issue discussed at this meeting was the county's 2010 SBOA audit report.
The meeting was adjourned at 5:00PM.

Katherine Chaffins, Auditor &
Secretary to the Board of Commissioner

SPECIAL SESSION

Friday, September 9th, 2011

Comes now the Starke County Board of Commissioners and meet in Special Session at 5:10PM in the Annex meeting room, Knox, Indiana, with Dan Bridegroom and Kathy Norem present and the following proceedings were held to wit:

Present at the meeting were Starke County Council President, Mark Smith, and Starke County Attorney, Marty Lucas. Also present in the audience were Starke County Councilman, Dave Pearman, and Starke County Councilwoman, Judy Benninghoff.

The meeting was called to order by Commissioner President, Dan Bridegroom. He turned the floor over to Starke County Council President, Mark Smith. President Smith announced the County had officially received the SBOA audit report of Starke County for the fiscal year 2010. He stated the report is over 50 pages long, and as is the regular SBOA procedure, the report is done one year in arrears; the 2010 audit is conducted in 2011. The exit interview with the SBOA Auditor was conducted in June, 2011. The findings were submitted to the State Board of Accounts (SBOA) for certification. During the time period, between the exit interview and the SBOA certification, the County is not allowed to discuss publicly the results of the audit the SBOA just concluded—no press releases. It was out of the ordinary when, instead of routinely certifying the audit, the SBOA called for a second exit interview on Aug. 10th. At that second exit interview, the County was told the findings remained the same as the first exit interview: the Treasurer's office had several errors in accounting. The SBOA Auditor announced the SBOA will be issuing a "disclaimer" opinion of the audit, which is the worst audit rating the SBOA gives. That "disclaimer" audit opinion severely reflects on the county's financial future: its ability to receive federal and state grants, its ability to issue bonds for major capital projects, and its ability to borrow funds. The officials of the county took notice; recognizing the serious situation the county was in; the bank account was officially short by an amount of \$890,956.00 compared to the cash balance of the all funds in the county. Following the first exit interview, as is required by the SBOA, the county wrote its letter of the corrective action the county would take to address the errors stated in the audit. A copy of the corrective action is attached to the Starke County 2010 Audit. A copy of that audit along with the Starke County Treasurer's 2010 Audit, is online at the SBOA website. The county's corrective action plan stayed the same following the Aug. 10th second interview, and the County followed through with the action plan on Aug. 11th, which led to the Treasurer being removed from office.

At the next regularly scheduled County Council meeting on August 15th, the County Auditor, Kay Chaffins, was given the ability to look at the county's bank statements and bank records and shortly after that she discovered \$869,050.00 in 2010, leaving an unexplained balance of \$21,906.00. Through her diligence in finding that and County Attorney, Marty Lucas' persistence to have the SBOA review the findings and reconsider the "disclaimer" status of the audit, they agreed to meet with us again to discuss the recent findings: that the majority of the shortage of funds was no longer unaccounted for but the result of bookkeeping errors in 2010. The meeting took place on Aug. 24th. They advised the official results would stay the same, but they would include in the audit report the fact that the current county auditor had discovered the errors from 2010. The audit report does state that they are issuing a "disclaimer" opinion. The bookkeeping error specifically was due to not posting the payroll deductions correctly in the county's financial software. In March, 2010, the county initiated the payments, online, of the employee's payroll deductions, FICA, Medicare, federal, state and county withholding taxes. The problem was that the payments were made, but not posted in the county's financial software, in the payroll clearing fund, the fund into which the employee's check deductions are put into. Therefore, its balance was overstated and why the bank account would be lower than the fund balance. The SBOA did take the corrections into consideration and changed their official opinion, which was the "disclaimer" opinion to "unqualified" opinion, which is the best type of audit the county could receive. But, there still remains a figure of \$523,619.00 which the SBOA reported in the 2010

audit, on page 46. A figure the SBOA believed was a “plugged” figure put into the Treasurer’s books in order to make them balance. Mark Smith continued, at the last Council meeting, he was put into charge to find a forensic audit company that could review the county’s books and discover the discrepancies. But, “since Auditor Chaffins did such a great job” and was able to discover, so far, \$869,050.00 of the \$890,956.00, he is requesting she look into that posted figure of \$523,619.00 done in January, 2010 and the reason for it. The SBOA Auditor that discovered the \$523,619.00 posting did not believe it had the correct documentation to support that correction in the books. He is holding off on the forensic audit company, for now, until the current County Auditor, Chaffins, can investigate the January, 2010 posting. If she can’t, they will bring in the outside audit firm. He stated, hopefully it can be audited internally to give everyone some answers. Marty Lucas added a clarification that stressed the importance of going from the “disclaimer” opinion to an “unqualified” opinion, and how the financial future crisis of the county, was averted. He stated a “disclaimer” opinion would have been a punishment to the county. An “unqualified” opinion means the financial records in front of the SBOA Auditor adequately represents the financial records of the entity reviewed. He stated at the exit interview of Aug. 10th the SBOA made it clear it will affect the future financial funding of the county.

Mark Smith concluded: “As we sit here today the report is a lot better than it was as of August 10th, and he would “publicly like to thank Kay Chaffins for doing the outstanding job to discover the errors”, and not have to go to an outside firm, and also the diligence work that Marty did with his persistence with the SBOA”.

At this point the meeting was opened to take questions from the public. Councilwoman Benninghoff questioned the paragraph that was added to the audit report. She stated “isn’t that a function of the auditor’s office, to record the payroll deductions, and not the Treasurer’s office which led to an inflated cash balance?” She stated that is not cash—those payroll deductions. It is more like an appropriation. “It is the auditor’s job to post those not the treasurer’s.” Auditor Chaffins responded by saying, when payroll is processed, all the deductions, FICA, Med., federal, state, and county taxes, were paid. In March, 2010 the county went to electronic payments of those taxes. Even though the taxes were paid, the transactions were never recorded in the software program, Harris, and were still showing in the Payroll Clearing Fund. Auditor Chaffins stated she had asked the SBOA Auditors, Kellie Manzuk, and her supervisor, Doug , Weise, who were at the Aug. 24th exit interview, what the responsibility of the treasurer was in regard to those errors and was told by both auditors that the treasurer, when conducting her monthly bank reconciliations, would have discovered there were online payments, but no postings in the Harris Financial Software, to record the payments. Chaffins compared it to, on a personal level, if you make purchases using your debit card, the transaction is subtracted from your checking account, but you never recorded the debit purchase in your check register of the checkbook. But, at the end of the month, after you receive your bank statement, and reconcile the statement, to your check register, you would discover the unrecorded debits. When you don’t post the debit transactions, you would have had less money in your bank account than what you are showing in your check register. Marty Lucas stated the Treasurer’s office was the one being audited and the SBOA doesn’t show the Treasurer ever questioned any discrepancies in the bank account. Ted Hayes, of WKVI, inquired what they were still looking at, in regard to the 2009 audit. President Smith advised they are looking at the posting, in Jan. 2010, in the amount of \$523,619.00 which was an attempt to balance the books at the end of 2009. He stated there were no payroll deduction corrections in 2009, and therefore, that did not affect the 2009 audit report. Councilman Pearman inquired, in regard to the \$21,906.00 balance still unresolved, if the Treasurer’s bonding company, Ohio Casualty Co., would send in any auditors. Marty Lucas stated he doesn’t believe that will happen.

Ex-Deputy Treasurer, Robin Lenig, stated documentation had been stapled to the correction in the Treasurer’s ledger book. Commissioner Bridegroom advised all books were closed and sealed on the day the Treasurer was removed from office and taken into the county’s possession, and they will be given to Auditor Chaffins to investigate. He stated the SBOA didn’t see the adequate documentation at the time of the audit. Councilman Benninghoff insisted the documentation was there.

Councilman Smith stated the SBOA makes the rules and the county has to follow those rules in their financial accounting.

Commissioner Bridegroom stated the ‘disclaimer’ status would have affected the Starke County Development Foundation, the county schools, the library, the jail, or any other of the county’s future financial requests. Councilwoman Benninghoff inquired, as a member of the council, could she call Harris Financial Software, to give her an answer as to who is responsible for making those payroll deductions.

Charlie Weaver, of the Starke County Development Foundation, stressed there purposely are checks and balances set up in the county between the Treasurer’s and Auditor’s offices. He stated the SBOA didn’t say the Treasurer was the one who hadn’t posted the deductions.

Councilwoman Benninghoff inquired about the County’s Corrective Action Plan, their response to the 2009 audit, and that the county didn’t follow through with the plan. She stated the Commissioners never asked Linda for anything in 2009. Marty and Mark advised the 2009 audit wasn’t completed until August, 2010 and then the requests for information from Treasurer Belork were recorded in the Commissioner’s minutes from the remainder of 2010 and also in 2011. They stated the County had attempted.

Robin Lenig stated in regard to the payroll deductions, the Treasurer’s office used to receive emails from Deputy Auditor Dona Hoban, advising them of the payroll deductions.

Commissioner Bridegroom made a motion to adjourn the meeting, seconded by Commissioner Norem. The meeting was adjourned at 6:05PM.

September 9, 2011

Dan Bridegroom, President

Kathy Norem, Vice President

ABSENT

Jennifer Davis

Katherine Chaffins, Auditor &
Secretary to the Commissioners