

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2765**

AUDIT REPORT

OF

COUNTY AUDITOR

LAKE COUNTY, INDIANA

January 1, 2005 to December 31, 2005



**FILED**

11/29/2006



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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Stephen R. Stiglich Judith Companik (Interim) Peggy Holinga Katona	01-01-03 to 07-28-05 07-29-05 to 09-25-05 09-26-05 to 12-31-06
President of the County Council	Will A. Smith, Jr.	01-01-05 to 12-31-06
President of the Board of County Commissioners	Gerry J. Scheub Rudolph Clay Frances DuPey Gerry J. Scheub	01-01-05 to 12-31-05 01-01-06 to 04-07-06 04-08-06 to 05-16-06 05-17-06 to 12-31-06



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF LAKE COUNTY

We have audited the records of the County Auditor for the period from January 1, 2005 to December 31, 2005, 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 Lake County for the year 2005.

STATE BOARD OF ACCOUNTS

September 28, 2006

COUNTY AUDITOR  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS

COUNTY ANNUAL REPORT

The 2005 County Annual Report (CAR) presented for audit contained many errors and funds were not classified properly.

In the CAR Part 2, detail of receipts, there were nine funds improperly shown. They were combined with other funds. Each fund should be shown separately.

Within the General Fund, the classifications for receipts were not correct. No licenses and permits were shown. No intergovernmental receipts were shown. Many of the charges for services were shown as miscellaneous revenue.

For various funds the Commercial Vehicle Excise Tax and Financial Institution Tax receipts need to be broken out of the transfer of funds line and separate lines be prepared for them, just like vehicle excise taxes.

In the debt service funds, the principal and interest should be posted separately. Tax Anticipation Warrants and temporary loans should be listed on separate lines in the CAR and posted to the records in separate account numbers. Fund 310, Park and Recreation Bond Fund, on the CAR shows capital outlay of \$2,531,423.44. This was actually a payment of debt service principal, interest, and fees. The same is true for Fund 320, County Bond Redemption Fund, on the CAR capital outlay of \$5,920,392.50 was shown, when this was actually a payment of debt service principal, interest, and fees.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines for County Auditors, Chapter 14)

Pursuant to Indiana Code 5-11-1-4, the County Auditor is required to prepare and file an Annual Financial Report with the State Board of Accounts. The report is prepared on forms furnished by this board. (Accounting and Uniform Compliance Guidelines for County Auditors, Chapter 6)

DEPOSITS AND RECEIPTS

The composition of 91% of the receipts tested could not be traced to the deposit because cash, check, or money order was not denoted on the receipts.

Indiana Code 5-13-6-1(c) states in part: "Public funds deposited . . . shall be deposited in the same form in which they were received."

RECEIPT ISSUANCE

As stated in the prior audit report, based upon discussions with the various county departments, when money is brought to the Auditor's Office, the money is counted in the presence of the departmental employee, but the receipt or quietus is not issued. The receipt or quietus is completed at a later time, and then returned to the department.

The Auditor should establish controls to allow for employees to issue receipts at the time collections are brought into the office.

COUNTY AUDITOR  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

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, Chapter 14)

DISBURSEMENTS IN EXCESS OF APPROPRIATIONS

Disbursements exceeded budgeted appropriations for the Commissioners' Department in the General Fund, and for the Circuit Breaker Debt Service Fund, Fund 325. The Commissioners Department within the General Fund exceeded the budget by \$500,689 because of additional tax anticipation warrant interest. The General Fund overall had disbursements less than the total budget. Therefore, the County officials could have requested an appropriation transfer from one department to another. The Circuit Breaker Debt Service Fund disbursed \$636,661 more than the appropriation. During 2005, the County disbursed money for three payments on the debt when only two payments had been budgeted. There was not enough cash in the fund to cover this third payment, so the fund had a negative cash balance at year end.

Indiana Code 6-1.1-18-4 states, in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

IRS FORM 1099-INTEREST

Payments of interest in excess of \$600 were made for refunds to the purchaser of properties on the County's property tax sale. The County Auditor did not issue any IRS Form 1099-Interest for these interest payments.

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 County Auditors, Chapter 14)

SURPLUS TAX FUND

In 2005, the County Treasurer transferred \$17,422,297.90 in surplus property tax payments to the County Auditor's Surplus Tax Fund (Fund 501). Later in 2005, upon issuing subsequent tax billings, \$37,004,476.06 in surplus property tax payments were rolled over as a credit on these tax billings so as to ease the tax burden on taxpayers. The \$37,004,476.06 was not refunded; instead it was held and applied as a credit on the next tax bills that were issued. Actual refunds of overpayments to taxpayers totaled \$528,066.07 from this fund in 2005. There was a beginning balance in the County Auditor's Surplus Tax Fund (Fund 501) of \$27,766,169.67 and an ending balance of \$7,445,103.04. A similar audit result and comment appeared in the prior audit report.

Each county treasurer shall place the portion of a tax or special assessment payment which exceeds the amount actually due, as shown by the tax duplicate or special assessment records, in a special fund to be known as the "surplus tax fund." Amounts placed in the fund shall first be applied to the taxpayer's delinquent

COUNTY AUDITOR  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

taxes in the manner provided in IC 6-1.1-23-5(b). The taxpayer may then file a verified claim for money remaining in the surplus tax fund. The county treasurer or county auditor shall require reasonable proof of payment by the person making the claim. If the claim is approved by the county auditor and the county treasurer, the county auditor shall issue a warrant to the taxpayer for the amount due the taxpayer.

Not less frequently than at the time of each semiannual settlement, the county treasurer shall prepare duplicate schedules of all excess payments received. The schedules shall contain the name on the tax duplicate, the amount of excess paid, and the taxing district. The county treasurer shall deliver one (1) copy of the schedule to the county auditor. Within fifteen (15) days after receiving the schedule, the county auditor shall review the schedule, and if the county auditor concurs with the schedule, the county auditor shall notify the county treasurer that the notice may be sent. The county auditor shall preserve the schedule, and if a refund is subsequently made, he shall note on the schedule and notify the county treasurer of the date and amount of the refund. In addition, when money is transferred from the surplus tax fund to the county general fund after three (3) years, the county auditor shall note the date and amount of the transfer on the schedule. (Accounting and Uniform Compliance Guidelines Manual for County Treasurers, Chapter 5)

EXCESS TAX SALE SURPLUS FUND

During 2005, there were no disbursements from the Tax Sale Surplus Fund (Fund 566) to the County General Fund for tax sale surplus receipts over three years old. Since no reconcilements of the Tax Sale Surplus Fund were performed, it was not possible to determine the amount that should have been transferred. A similar audit result and comment appeared in prior audit reports.

Indiana Code 6-1.1-24-7(d) states: "An amount deposited in the tax sale surplus fund shall be transferred by the county auditor to the county general fund and may not be disbursed under subsection (b) if it is not claimed within the three (3) year period after the date of its receipt."

TAX SALE REDEMPTION FUND BALANCING

The Tax Sale Redemption Fund (Fund 565) had a cash balance of \$199,248.05 at December 31, 2005. This fund has not been reconciled for several years. A similar audit result and comment appeared in prior audit reports.

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 County Auditors, Chapter 14)

PAYMENT FOR EXCESS VACATION

An officer of the Sheriff's Department was paid for 200 hours of overtime in the amount of \$6,120.72 on pay date December 23, 2005. The Overtime Report stated the 200 hours was for 5 weeks of vacation time from 2004 that the officer worked instead of using as leave time. No approval from the Sheriff for the carryover of the 5 weeks was presented for audit. An explanation for the officer working the scheduled vacations and paying the time at an overtime rate, one year later, was not documented.

COUNTY AUDITOR  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

The reports to substantiate that the officer worked the scheduled vacation time did not agree. The Employee Service Record showed the officer was on vacation for the first 3 weeks and worked the last 2 weeks during 2004. The Payroll Authorization Report showed all 5 weeks as regular time worked. The Overtime Report states the officer worked all 5 weeks.

The Lake County Fraternal Order of Police Collective Bargaining Agreement, Article 22, Section 3, states in part: "Vacation time will be taken during a vacation year starting January 1 and ending December 31."

Article 22, Section 7, states in part: "Vacation time must be used during the calendar year in which it is credited unless approved by the Sheriff or his/her designee."

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

#### EMPLOYEE SERVICE RECORDS

Five out of twenty-six or 19% of the Employee Service Records, General Form 99A, were not properly completed. Employee Service Records presented for audit were not completed and did not have vacation, sick or compensatory leave balances computed. Compensatory time balances were included with the personal leave and sick leave. Two service records were not presented for audit.

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, Chapter 14)

#### PAYROLL DEFICIENCIES

1. For 8 out of 26 or 31% of the employees tested, time and attendance records were not maintained and certified by the department head.
2. An employee used more paid vacation time than the employment policy allows in the amount of 8½ days.
3. The Juvenile Court does not use the prescribed Employee Service Record, General Payroll Form 99A.

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, Chapter 14)

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

COUNTY AUDITOR  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

PARK TRANSACTION RECORDING

The Parks and Recreation Department received a Bond Anticipation Note (BAN) in the amount of \$11,500,000 on May 27, 2005, and paid off \$11,000,000 in an outstanding BAN on May 31, 2005. Only \$287,151 in receipts of the new BAN was recorded. An additional \$11,212,849 in BAN proceeds should have been recorded. The disbursements of \$11,000,000 to repay the old BAN and interest of \$212,849 were not recorded.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

FORM APPROVAL

As reported in prior audits, the check register in use by the County as official records which are being prepared through the computerized financial and payroll accounting system, have not been approved by the State Board of Accounts. State statutes provide that the State Board of Accounts shall approve forms for use by governmental agencies to ensure uniformity, and that the forms allow for the tracing of transactions from either the original source document to the ledger or from the ledger back to the original source document. Otherwise, forms could be used which would not allow for proper audit trails. The County Auditor should submit the check registers for approval, making any modification necessary to receive that approval.

Indiana Code 5-11-1-2(b) states: "Notwithstanding subsection (a), the state board of accounts may not require a municipality to use an electronic, automated, or computerized system of accounting and reporting. However, if a municipality elects to use an electronic, automated, or computerized system of accounting, the system must conform to the requirements of this chapter."

The State Board of Accounts is empowered to formulate, prescribe and install a uniform system of accounting and reporting in each county auditor's office, pursuant to IC 5-11-1-2. Other laws have extended this power to cover many other forms and records used by the auditor. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 4)

COUNTY AUDITOR  
LAKE COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on October 16, 2006, with Peggy Holinga Katona, Auditor; Michael T. Wieser, Director of Finance; Will A. Smith, Jr., President of the County Council; Roosevelt Allen, Jr., member of the Board of County Commissioners; Delvert E. Cole, Office Administrator to the Board of County Commissioners; and John S. Dull, Attorney for the Board of County Commissioners. The official response has been made a part of this report and may be found on pages 10 through 12.



*Auditor Lake County*

LAKE COUNTY GOVERNMENT CENTER  
2293 NORTH MAIN STREET  
CROWN POINT, INDIANA 46307



RESPONSE TO AUDIT FINDINGS  
LAKE COUNTY AUDITOR'S OFFICE  
YE 12/31/05

COUNTY ANNUAL REPORT

This report contained a number of errors as they relate to Lake County's annual report as it was presented to The State Board of Accounts.

The underlying problem is that some funds were not properly classified.

Together, with representatives of The State Board of Accounts and The Supervisor of Lake County Auditor's Office Finance Department, a new understanding of what shall be required in future reporting has been reached.

In future reporting, funds previously combined with others, shall be identified separately. In addition, debt service funds shall be posted so that principal, interest, and fees can be easily identified.

Also, classification of receipts shall be maintained to comply with State Board of Accounts standards.

DEPOSITS AND RECEIPTS

After discussions with State Board of Accounts representatives, the Lake County Auditor's office has established that, at the time of each transaction, an approved, handwritten receipt be issued and recorded. The receipt book shall be maintained in the Auditor's bookkeeping department and shall include the amount of the transaction, the method of payment (cash, check, money order) and the corresponding quietus number that shall be subsequently issued.

DISBURSEMENTS IN EXCESS OF APPROPRIATIONS

The Auditor's office acknowledges this oversight and has communicated with the Treasurer's office to check the appropriation prior to issuing any debt service payments that may include interest not originally appropriated.

IRS FORM 1099-INTEREST

The Tax Sale Department of the Auditor's Office has been instructed to: compile the necessary information on those eligible for 1099's, record all interest payments, and notify the Bookkeeping department as to which persons are eligible and provide all information necessary to provide 1099's to the taxpayer and the appropriate State and Federal agencies.

### SURPLUS TAX FUND

Lake County was notified of this concern prior to the issuance of tax bills created for the 2005 pay 2006 tax year. Lake County took the steps necessary to avoid this concern.

### EXCESS TAX SALE SURPLUS FUND

Lake County's Finance Department and Tax Sale Department have developed a program that will provide the necessary balanced report.

### TAX SALE REDEMPTION FUND BALANCING

As noted in the previous reply, Lake County's Finance Department and Tax Sale Department have developed a program to address this finding.

### PAYMENT FOR EXCESS VACATION

The Auditor's Office was aware of the problem and is working with the Payroll Oversight Committee to address this finding.

### EMPLOYEE SERVICE RECORDS

The Auditor's Office together with the County's Payroll Oversight Committee is working on program to notify all departments to comply with The State Board of Accounts standards concerning service records.

### PAYROLL DEFICIENCIES

1. Refer to previous response
2. This finding has been referred to the Payroll Oversight Committee and the necessary steps have been taken.
3. The Auditor's office contacted representatives from the Juvenile Court to address this finding. After contact, it was agreed that the Auditor's Office contact the State Board of Accounts to approve a new Service Record form more suitable to the needs of the Court. The reply from the State Board of Accounts is still pending.

### PARK TRANSACTION RECORDINGS

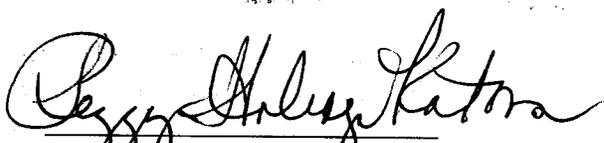
The Auditor's Office and Treasurer's office were notified of this transaction after it happened. The Auditor's office communicated with the responsible party at the Park Department and explained the process. An agreement was reached by the Auditor's

Office and the Park Department that all financial transactions of this kind can and must be handled only through the County's financial records.

FORM APPROVAL

The Auditor's Office was contacted by The State Board of Accounts representative and the forms in question are being evaluated and the necessary approval will be applied for.

Respectfully submitted on this the 24<sup>th</sup> day of October 24, 2006

A handwritten signature in cursive script, reading "Peggy Holinga Katona". The signature is written in black ink and is positioned above a horizontal line.

Peggy Holinga Katona  
Lake County Auditor