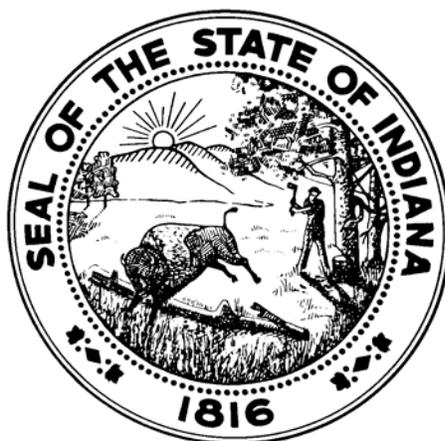


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

AUDIT REPORT
OF
BOARD OF COUNTY COMMISSIONERS
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>
President of the Board of County Commissioners	Gerry J. Scheub	01-01-05 to 12-31-05
	Rudolph Clay	01-01-06 to 04-07-06
	Frances DuPey	04-08-06 to 05-16-06
	Gerry J. Scheub	05-17-06 to 12-31-06
President of the County Council	Will A. Smith, Jr.	01-01-05 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF LAKE COUNTY

We have audited the records of the Board of County Commissioners 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

BOARD OF COUNTY COMMISSIONERS
LAKE COUNTY
AUDIT RESULTS AND COMMENTS

CONFLICT OF INTEREST

Several County officials have spouses or unemancipated children who are also employed by the County. A Uniform Conflict of Interest Disclosure Statement has not been filed. The officials noted have either direct control or indirect control over the spouse or child employed by the County, which can give the appearance of preferential treatment.

Elected County officials and department heads should file a Uniform Conflict of Interest Disclosure Statement, whenever their spouse or unemancipated child works at the County, and that elected official or department head has a pecuniary interest, or has control or supervisory control over that individual, either directly or indirectly. By filing the statement, the employment status is fully disclosed to the public.

A similar audit result and comment appeared in the prior report.

Indiana Code 35-44-1-3 states in part:

"(a) A public servant who knowingly or intentionally: (1) has a pecuniary interest in; or (2) derives a profit from; a contract or purchase connected with an action by the governmental entity served by the public servant commits conflict of interest, a Class D felony. . . ."

"(c) This section does not prohibit a public servant from having a pecuniary interest in or deriving a profit from a contract or purchase connected with the governmental entity served . . . (3) If the public servant; (A) is an elected public servant . . . and (B) makes a disclosure under subsection (d)(1) through (d)(6)."

"(d) A disclosure required by this section must: (1) be in writing; (2) describe the contract or purchase to be made by the governmental entity; (3) describe the pecuniary interest that the public servant has in the contract or purchase; (4) be affirmed under penalty of perjury; (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the governmental entity prior to final action on the contract or purchase; (6) be filed within fifteen (15) days after final action on the contract or purchase with: (A) the state board of accounts; and (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase . . ."

"(g) A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of: (1) the public servant; or (2) a dependent of the public servant who: (A) is under the direct or indirect administrative control of the public servant; or (B) receives a contract or purchase order that is reviewed, approved, or directly or indirectly administered by the public servant. . . ."

"(k) As used in this section, 'dependent' means any of the following: (1) The spouse of a public servant. (2) A child, stepchild, or adoptee (as defined in IC 31-9-2-2) of a public servant who is: (A) unemancipated; and (B) less than eighteen (18) years of age. (3) Any individual more than one-half of whose support is provided during a year by the public servant."

BOARD OF COUNTY COMMISSIONERS
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

SELF-INSURANCE FUND OUTSIDE ADMINISTRATOR SAS 70 REPORT

Lake County uses an outside administrator for its Self-Insurance Fund. This outside administrator would be considered a service organization, because this administrator provides services to the County as indicated.

The County funds a bank account used to pay insurance claims. The outside administrator maintains this bank account and writes checks from it for the insurance claims. The administrator provides activity reports and bank statements for this account to the County.

Statement on Auditing Standards (SAS) Number 70, as amended by SAS 88 (AU 324), defines a service organization as an entity that provides services to a user organization.

The fund is significant to the County's financial statements.

SAS 70 (SAS No. 70) allows service organizations to disclose their control activities and processes to their customers and their customers' auditors in a uniform reporting format. A SAS 70 examination signifies that a service organization has had its control objectives and control activities examined by an independent accounting and auditing firm. A formal report including the auditor's opinion (Service Auditor's Report) is issued to the service organization at the conclusion of a SAS 70 examination.

A SAS 70 report was not available for audit in 2005, so no reliance could be placed on controls for this service organization.

A similar audit result and comment appeared in the prior report.

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 Counties, Chapter 1)

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 five 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.

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 three weeks and worked the last two weeks during 2004. The Payroll Authorization Report showed all five weeks as regular time worked. The Overtime Report states the officer worked all five weeks.

The above deficiencies have resulted in the employee not being compensated in accordance with ordinances enacted by the County Council and Commissioners. The various department heads should review and establish controls to ensure correct records are maintained, and that they agree to each other.

BOARD OF COUNTY COMMISSIONERS
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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."

The Lake County Fraternal Order of Police Collective Bargaining Agreement, 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 Counties of Indiana, Chapter 1)

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 Counties of Indiana, Chapter 1)

PAYROLL DEFICIENCIES

1. 8 out of 26, or 31%, of the employees' time and attendance records tested 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 8 and ½ days.
3. The Juvenile Court does not use the prescribed Employee Service Record, General Payroll Form 99A.

The above deficiencies have resulted in employees not being compensated in accordance with ordinances enacted by the County Council and Commissioners. Additionally, records maintained are not properly supported.

The various department heads should review and establish controls to ensure correct records are maintained, and that they agree to each other.

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 Counties 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 Counties of Indiana, Chapter 1)

Indiana Code 5-11-9-4 requires that records be maintained showing which hours are worked each day . . . on each Employee's Service Record, General Form 99A. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 5)

BOARD OF COUNTY COMMISSIONERS
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

ACCOUNTING RECORDS

Hermits Lake is a Wastewater Utility acquired by the County. The Commissioners have contracted with an outside consultant to maintain certain financial records of the utility. The records consist of accounts receivable control and detail ledgers. The consultant maintains the accounts receivable using the commercially packaged spreadsheets. The spreadsheet software does not provide safeguards that prevent subsequent alterations of data without an audit trail. This has been a comment in prior reports.

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 Counties, Chapter 1)

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 Counties, Chapter 1)

DELINQUENT ACCOUNTS

Many of the Wastewater Utility accounts at Hermits Lake are considered delinquent. A policy for writing off bad debts or establishing an allowance for uncollectible accounts has not been established. The County has not utilized provisions in state statutes to record and certify liens with the County Recorder. By certifying the accounts, the delinquent amounts are billed with property taxes. By recording the delinquent amount, a lien is placed on the property. This has been a comment in prior audits.

The Commissioners should establish a policy for the collections of delinquent accounts, and as a minimum follow state statute regarding certifying and recording delinquent Wastewater Utility charges.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Counties, Chapter 1)

The governing body of a governmental unit should have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balances. (Accounting and Uniform Compliance Guidelines Manual for Counties, Chapter 1)

BOARD OF COUNTY COMMISSIONERS
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 9 and 10.



**OFFICE OF THE ATTORNEY
TO THE BOARD OF COMMISSIONERS**

John S. Dull

LAKE COUNTY GOVERNMENT CENTER
2293 NORTH MAIN STREET
CROWN POINT, IN 46307
PH. 219-755-3058 • FAX 219-648-6138
EMAIL: jsdull@yahoo.com



October 17, 2006

Bruce Hartman
State Examiner
State Board of Accounts
Indianapolis, IN 46402

RE – 2005 Audit Response

Dear Mr. Hartman:

The following comments are submitted in regard to the Board of County Commissioners Lake County Audit Results and Comments prepared by the State Board of Accounts. The comments will be submitted in outline form and will be brief.

The comments are as follows:

A. CONFLICT OF INTEREST

1. The statute cited is IC 35-44-1-3.
2. The statute applies to a “contract” or “purchase”.
3. On its face and as used in the statute the word “contract” does not seem to apply to an employee.
4. Copies of a sample disclosure form will be sent to all County Officials.

B. PAYROLL DEFICIENCIES AND EXCESS VACATION

1. Each department will attend a workshop to be scheduled to correct these deficiencies.
2. Data Processing will be asked to design a system to computerize the leave

- policy accounting.
3. The Board of Commissioners does not have ordinance powers in Lake County and therefore cannot enact such ordinances to correct the cited deficiencies.
 4. The area will be addressed as part of the Good Government Initiative.

C. SELF INSURANCE FUND OUTSIDE ADMINISTRATOR SAS 70 REPORT

1. The SAS 70 report has been requested from the outside administrator.
2. When received the report will be forwarded to the State Board of Accounts.
3. A clause will be presented in our next agreement with a vendor requiring that a SAS 70 be timely prepared and submitted.

D. ACCOUNTING RECORDS

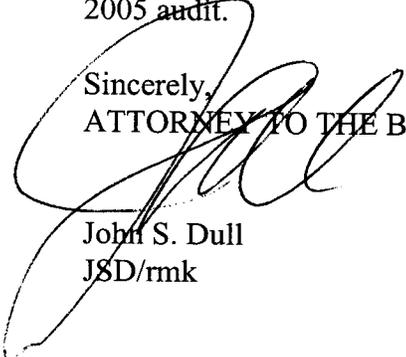
1. The consultant who maintains these accounts is a former employee of the Indiana State Board of Accounts in the Lake County office.
2. The employee will be asked to design and operate a system in accordance with state guidelines.
3. A computer system and program has been purchased which will computerize billing.

E. DELINQUENT ACCOUNTS

1. The collection of these delinquent accounts will be coordinated with the new Auditor and new Treasurer.
2. A program has been preliminarily discussed, designed and presented orally.
3. The initial effort will be made to compromise the amounts payable since there are some deficiencies in the accounting records.
4. A collection effort was instituted in August 2006. The results to date have been promising.

These comments are being submitted in response to the audit results and comments for the year 2005 audit.

Sincerely,
ATTORNEY TO THE BOARD OF COMMISSIONERS



John S. Dull
JSD/rmk