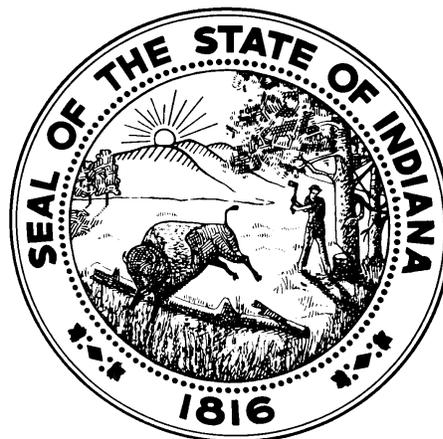


**STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769**

AUDIT REPORT
OF
BOARD OF COUNTY COMMISSIONERS
LAKE COUNTY, INDIANA
January 1, 2006 to December 31, 2006



FILED
11/30/2007

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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
President of the Board of County Commissioners	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
	Roosevelt Allen, Jr.	01-01-07 to 12-31-07
President of the County Council	Will A. Smith, Jr.	01-01-06 to 12-31-06
	Elsie Franklin	01-01-07 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF LAKE COUNTY

We have audited the records of the Board of County Commissioners for the period from January 1, 2006 to December 31, 2006, 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 2006.

STATE BOARD OF ACCOUNTS

September 19, 2007

BOARD OF COUNTY COMMISSIONERS
LAKE COUNTY
AUDIT RESULTS AND COMMENTS

SELF-INSURANCE ADMINISTRATOR SAS 70 REPORT

Lake County's Self-Insurance fund is administered by an outside service organization. This fund is significant to the County's financial statements. The County funds the bank account that the outside administrator maintains and uses to pay insurance claims. The administrator provides activity reports and bank statements to the County for this account.

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. SAS 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 2006. The service organization has opted not to engage auditors to perform an SAS 70 examination due to cost. The lack of this report affects the County's ability to properly monitor the controls and procedures of the organization. A similar audit result and comment appeared in prior audit reports.

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)

EXCESS VACATION HOURS PAID

Internal controls over payroll transactions were not adequate to ensure that county officials complied with all applicable state and local policies and procedures. Of the 25 employees' payroll records tested, two employees were paid for 56 and 24 vacation hours, respectively, in excess of those earned in accordance with the approved policy.

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)

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

WASTEWATER UTILITY ACCOUNTING RECORDS

As stated in prior audit reports, Hermits Lake Wastewater Utility was acquired by, and is now operated by, the County. The Commissioners had contracted with an outside consultant to maintain certain financial records of the utility through 2006. The records consisted of accounts receivable control and detail ledgers. The consultant maintained the accounts receivable records using commercially packaged spreadsheet software. The spreadsheets did not provide safeguards that prevent subsequent alterations of data nor an audit trail. The County Treasurer's office has begun maintaining the utility's financial records for 2007.

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 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 WASTEWATER ACCOUNTS

Many of the Hermits Lake Wastewater Utility accounts are considered delinquent. A policy for writing-off bad debts or establishing an allowance for uncollectible accounts has not been established. In addition, the County has not utilized provisions in state statutes to record and certify liens for delinquent accounts with the County Recorder. A similar comment has appeared in prior audit reports.

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 of Indiana, Chapter 1)

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 of Indiana, Chapter 1)

BOARD OF COUNTY COMMISSIONERS
LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on September 27, 2007, with Roosevelt Allen, Jr., President of the Board of County Commissioners. The official response has been made a part of this report and may be found on pages 7 through 9.



**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 11, 2007

Bruce A. Hartman
State Examiner
State Board of Accounts
302 W. Washington, 4th Floor-Rm. 418
Indianapolis, IN 46402

Re: Reply to 2006 Audit

Dear State Auditor:

In accordance with the option elected at the time of the exit conference held on September 27, 2007, the Board of Commissioners hereby submits its responsive comments.

To facilitate review, the comments will be organized under the same major headings that were utilized in the audit. The materials as received were difficult to follow since not all of the pages and sections were numbered. Therefore, the responses will be identified by a major heading and formulated to address those sections identified.

I. SELF INSURANCE ADMINISTRATOR SAS 70 REPORT

- a. The Board of Commissioners informed its self insurance agent that an audit of its fund will be required.
- b. The current audit by the State Board of Accounts is for the audit year of 2006.
- c. For the audit of the calendar year 2007 Lake County will be in compliance.

II. PAYROLL DEFICIENCIES

- a. The solution in this area will ultimately be achieved by computerizing all payroll activities including those involving vacation, sick time, and other forms of leave.
- b. The current system does not provide a means to do this. Our data department has been asked to look at this based upon the recommendation of the Good Government Committee.
- c. The Commissioners are in full support of this audit finding. Hopefully the money can be found to tie in that software program. The goal of the Commissioners is to have a full accounting of all vacation, sick and other bereavement hours accounted for on a pay stub that accompanies an employee's check every two weeks.

III. WASTEWATER UTILITY ACCOUNTING RECORDS

- a. The key step that was taken was that for 2007 and subsequent time periods during which the County controls Hermits Lake Wastewater Utility the County Treasurer's office will maintain the records.
- b. The Commissioners thought that they had solved the problem previously by hiring a former employee of the State Board of Accounts to handle the accounting.

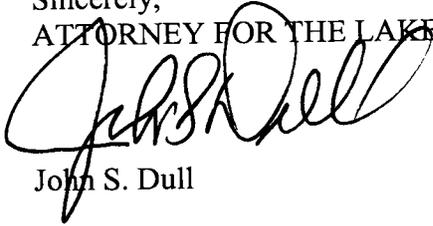
IV. DELINQUENT WASTEWATER ACCOUNTS

- a. The Board of Commissioners have assigned an attorney for collections.
- b. The attorney has been authorized to compromised the current accounts and write off designated proportions.
- c. The reason for the write offs has and will be to fold. First the accounting records maintained by the former independent contractor are not up to snuff.

- d. There are gaps in periods when timely notices and bills were sent to those residences tied into the system.
- e. The policy on write offs will again be approved by the Board of Commissioners.

This response is being timely submitted.

Sincerely,
ATTORNEY FOR THE LAKE COUNTY BOARD OF COMMISSIONERS



John S. Dull

JSD:rmk