

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, 2007 to December 31, 2007



FILED
09/26/2008

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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
President of the Board of County Commissioners	Roosevelt Allen, Jr. Gerry J. Scheub	01-01-07 to 12-31-07 01-01-08 to 12-31-08
President of the County Council	Elsie Franklin Christine Cid	01-01-07 to 12-31-07 01-01-08 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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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, 2007 to December 31, 2007, 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 2007.

STATE BOARD OF ACCOUNTS

August 19, 2008

BOARD OF COUNTY COMMISSIONERS
LAKE COUNTY
AUDIT RESULTS AND COMMENTS

DELINQUENT WASTEWATER ACCOUNTS

Many of the Hermits Lake Wastewater Utility accounts are considered delinquent due to non-payment over a long period of time. 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 with the County Recorder. By recording and certifying the accounts, a lien is placed on the property and the delinquent amounts are billed with property taxes. This has been a comment in prior audit reports.

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)

INTERNAL CONTROL OVER CONTRACTS - FAIRGROUNDS

There are entities specified by the Board of County Commissioners that are not required to pay for rental of facilities. Contracts for these entities are not numbered. The computer generates a number only for the contracts for which a fee is charged. All contracts should be numbered and issued in sequential order. This will provide documentation to support usage and fees collected for the fairground.

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 Counties of Indiana, Chapter 1)

FEES - FAIRGROUNDS

The facilities and grounds of the Fairgrounds are rented for various functions and activities, and fees are charged based upon a fee schedule. Some not-for-profit organizations have been charged a reduced rate based upon a letter approved by the Board of County Commissioners. The fee schedule in use, and the reduced rates for certain not-for-profits, has not been formally adopted in an ordinance or resolution.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

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

ENCUMBRANCES

Review of the appropriation and disbursement records for 2007 noted a number of purchase orders (PO's) encumbered at December 31, 2007. Further review of these encumbrances noted a number of PO's for these encumbrances were issued prior to 2007. The General Fund had 264 PO's issued between 2001 and 2007, totaling \$305,054. Eleven other funds also had PO's encumbered which were originally issued between 1997 and 2006.

Whenever a valid appropriation has been lawfully encumbered by a contract or by the issuance of a purchase order, the appropriation to the extent of the encumbrance may be carried forward to the succeeding year and made available for payment of the obligation which encumbered it. Only so much of the appropriation as is lawfully encumbered may be carried forward. All appropriations not lawfully encumbered by contract or purchase order revert at the close of the year. (The County Bulletin and Uniform Compliance Guidelines, January 2007)

GROUP INSURANCE EMPLOYEE BENEFIT PROGRAM

Lake County Ordinance 992C allows retired employees to participate in the County Group Insurance Employee Benefit Program as long as the County's conditions and requirements are met. The retiree must pay the County premiums that are due at the first of each month. Failure to timely pay should result in immediate cancellation of insurance coverage by the Board of Commissioners and denial of claims.

However, the Insurance Department Coordinator stated that the retirees are given three months to pay delinquent premiums before cancelling the insurance coverage. This was not in compliance with the County's cancellation policy.

The condition of the records, specifically the posting of transactions, did not facilitate verification of payment postings to the individual accounts receivable (AR) ledgers. There were no individual AR ledgers for 2 (5%) of the 40 individual receipts tested; therefore, the postings to these individual AR ledgers could not be verified.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Counties, Chapter 1)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. (Accounting and Uniform Compliance Guidelines Manual for Counties, Chapter 1)

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.

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

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 2007. The Lack of this report has resulted in qualified opinions in the Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards, and the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements. The service organization engaged auditors to perform an SAS 70 examination; however the projected completion date was September 2008. 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)

INTERNAL CONTROLS OVER GAS PUMPS

The Lake County Sheriff's Department has two gas pumps to provide gas for vehicles in the Sheriff's Department and various other Lake County Departments.

Each County Department that uses the gas pumps receives a gas key for each vehicle. The gas keys are assigned a key number or code. When a person uses the gas pumps, a gas key is used and the key number must be entered before pumping the gas. A computerized report of the gas usage is generated by department and key number.

The controls over the usage of the gas pumps are deficient as follows:

1. Although a camera records the activity at the gas pumps, there is no one actually viewing the camera recordings of the vehicles filled at the gas pumps. Personal vehicles could be filled at the gas pumps.
2. No reconciliation is made between the actual gas usage per the pump readings and the total per the usage reports generated by the computer.
3. There is no periodic physical inventory taken of the gas on hand to compare actual consumption to usage reports.

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

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 of Indiana, Chapter 1)

UNALLOWABLE EXPENDITURES - E911

Expenditures were made from the Emergency 911 Fund for the following unallowable expenditures during the years 2005, 2006, and 2007:

1. County Government Center information telephone line;
2. Office supplies;
3. Office equipment, such as printers and copiers;
4. Police Department items, such as sirens, lights, and a warning system;
5. City and Town radio system upgrades; and
6. Construction related to the Spillman project.

The amounts for these unallowables for 2005, 2006, and 2007 were \$62,849.65, \$109,707, and \$280,520.26, respectively. As a percentage of total 911 expenditures, these were 2% for the three years in total.

Indiana Code 36-8-16-14 (a) states:

"(a) The emergency telephone system fees shall be used only to pay for:

- (1) the lease, purchase, or maintenance of enhanced emergency telephone equipment, including necessary computer hardware, software, and data base provisioning;
- (2) the rates associated with the service suppliers' enhanced emergency telephone system network services;
- (3) the personnel expenses of the emergency telephone system;
- (4) the lease, purchase, construction, or maintenance of voice and data communications equipment, communications infrastructure, or other information technology necessary to provide emergency response services under authority of the unit imposing the fee; and
- (5) an emergency telephone notification system under IC 36-8-21.

The legislative body of the unit may appropriate money in the fund only for such an expenditure."

BOARD OF COUNTY COMMISSIONERS
LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 19, 2008, with Gerry Scheub, President of the Board of County Commissioners; and John Dull, County Attorney. The official response has been made a part of this report and may be found on pages 9 through 16.



**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 219/755-3064



August 22, 2008

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

RE – Official Response to 2007 Audit Results and Comments

Dear Mr. Hartman:

On behalf of the Board of Commissioners I am submitting this response concerning the 2007 audit and the comments. To facilitate your review, I will respond in the same order that the topics were presented in the audit. There were eight such topics that were noted. The responses are as follows:

1. Delinquent Wastewater Accounts
 - a. You are correct that Lake County does not have a written policy to write off bad debts. The attorney representing the waste water utility has been working on such a policy for the last three months. That policy will be formalized by the Board within the next 90 days.
 - b. One of our problems has been that we lack reliable information on account balances. Many of these have been carried over for many years. As a practical matter we were hesitant about filing suit. A policy being prepared will reflect this lack of reliable data.
 - c. At the start of 2008 we shifted to a new computer based accounting system with zero balances. Utilizing this data we will file the necessary liens as noted.

2. Internal Control Over Contracts – Fairgrounds

- a. The county now numbers every contract in sequential order even if there are no fees due for rental of the facility. This change was implemented as soon as the local audit staff met and discussed this with Fairgrounds personnel.
- b. However, since the correct was midstream in 2008, the same deficiency would exist in the period prior to your notation and our correction.

3. Fees – Fairgrounds

- a. A written policy and fees schedule on the Fairgrounds will be adopted within 90 days.
- b. The policy will contain the procedure for waiving fees for certain organizations.

4. Encumbrances

- a. The Lake County Purchasing Agent has contacted all departments regarding the existence of encumbrances for prior years.
- b. As of the date of this response all of the encumbrances for calendar year 2006 and before have been resolved. The 2007 encumbrances will be resolved on or before September 30, 2008. This is the deadline given to departments by the Purchasing Agent.
- c. In the future the Purchasing Agent will monitor encumbrances and prevent the accumulation and carry over of those that will not in fact be used.

5. Group Insurance Employee Benefit Program

- a. The Commissioners will request that the Lake County Council consider amending Lake County Ordinance 992C to allow retired employees a grace period of up to three months prior to cancelling the insurance. If the County Council does not amend the ordinance, the Commissioners will initiate a policy of strict enforcement.
- b. The procedure followed by an insurance department in posting receivables to the ledgers has been noted and corrected. The local audit staff instructed the members of the insurance department on the correct procedure and that has been initiated.

6. Self Insurance Administrator SAS 70 Report

- a. The County recognized the importance of complying with the SAS 70 guidelines.
- b. With this recognition in mind, the County hired the firm of Whittaker & Company PLLC to review the guidelines and institute a procedure so that the liability portion of the self insurance fund is in compliance. That procedure was implemented on or about April, 2008. The final steps will be taken at the end of 2008. The firm will again be employed in October, 2008 to review the procedure and ensure that it meets the SAS 70. Since these changes were made midstream 2008, the first year for which the county self insurance liability fund will be in 100% compliance and a complete SAS 70 audit conducted will be 2009.
- c. The county's self insurance health fund is managed by Professional Claims Management, Inc. as third party administrator. This company also provides such services for the City of East Chicago and one or two other municipalities. An audit meeting SAS 70 standards is being conducted. A copy will be provided. In the future the county is requesting that the third party administrator begin the SAS 70 audit in January of the year following the audit year. For 2008, the audit should commence January 2009. This should make the results available of the use of the local audit staff.

7. Internal Controls Over Gas Pumps

- a. Regarding the three deficiencies noted in the audit report, the Commissioners are requesting that the Sheriff immediately implement the policy to address and correct those noted. A copy of that letter is attached.
- b. The Commissioners are weighing several options in the future in reference in ways to institute tighter control over this valuable item.

8. Unallowable Expenditures – E911

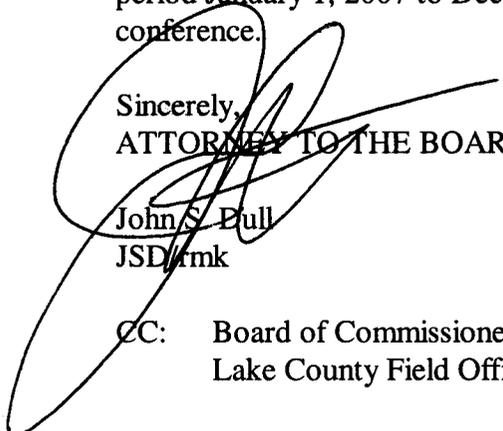
- a. There were six areas in which the audit staff noted unallowable expenditures for the years 2005, 2006, and 2007. To put this in perspective, this is the first time that the local audit staff has looked at E911. Thus, this is the first time that the opportunity exists to address the deficiencies.
- b. During the exit interview, the local audit staff noted that the bulk of the unallowable expenditures consisted of paying for the county government

center information telephone line (219-755-3000) out of E911 funds. The Commissioners have directed James Bennett, the county consultant who oversees this fund, to remove that expenditure. A copy of the letter sent to Mr. Bennett is attached.

- c. To ensure that funds are being spent for their designated purpose, the county will pay directly for the invoices and not through a city or town, or its public safety departments.

This letter is the response of the Board of Commissioners to the audit of Lake County for the period January 1, 2007 to December 31, 2007 that was discussed at the August 19, 2008 exit conference.

Sincerely,
ATTORNEY TO THE BOARD OF COMMISSIONERS



John S. Dull
JSD/rmk

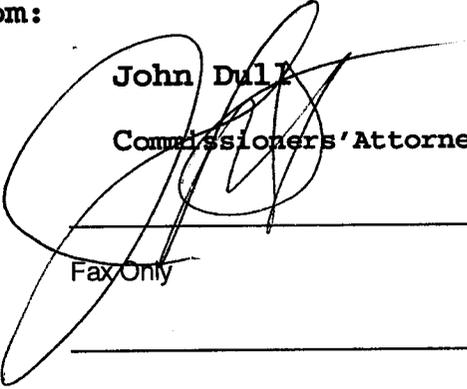
CC: Board of Commissioners
Lake County Field Office, State Board of Accounts

Office of the Attorney
to the
Board of Commissioners

2293 N. Main St. • Crown Point, IN 46307
219-755-3058 ~ Fax 219-648-6138

TO: Jim Bennett

From:


John Dule
Commissioners' Attorney

August 22, 2008

Date:

Re: E 911

Fax Only

CC:

Attached is the recent segment of the audit of E 911.

During the exit interview the audit staff stated that item number 1 constituted the bulk of the unallowable expenditures.

Please take the necessary steps to correct this deficiency. The Lake County Government Center information telephone line should be paid for out of general fund money and not E 911 funds.

When you have made that change, please provide written confirmation.

UNALLOWABLE EXPENDITURES - E911

Expenditures were made from the Emergency 911 fund for the following unallowable expenditures during the years 2005, 2006, and 2007:

1. County Government Center information telephone line
2. Office supplies
3. Office equipment, such as printers and copiers
4. Police Department items, such as sirens, lights, and a warning system
5. City and Town radio system upgrades
6. Construction related to the Spillman project

755-3000

NOT FOR PUBLIC RECORD
NOT FOR PUBLIC RELEASE
unil subm
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The amounts for these unallowables for 2005, 2006, and 2007 were \$62,849.65, \$109,707.00, and \$ 280,520.26 respectively. As a percentage of total 911 expenditures, these were 2.04 % for the three years in total.

Indiana Code 36-8-16-14 (a) states:

"(a) The emergency telephone system fees shall be used only to pay for:

Jim Bennett may report

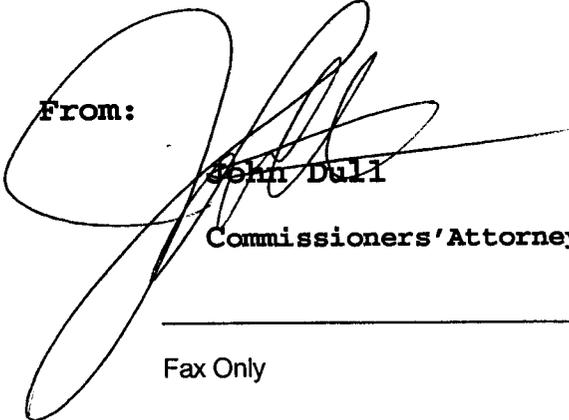
Pay direct

Office of the Attorney
to the
Board of Commissioners

2293 N. Main St. • Crown Point, IN 46307
219-755-3058 ~ Fax 219-648-6138

TO: Lake County Sheriff

From:



John Dull

Commissioners' Attorney

August 22, 2008

Fax Only

Date:

Re: Need for Change in Internal Gas Pump Control
CC:

Attached is the section of the latest audit dealing with the gas pumps.

Please note that this is not for public record or public release.

There are three noted deficiencies. Please have your staff correct these and provide corrective action.

Submit a written response when this goal has been achieved.

INTERNAL CONTROLS OVER GAS PUMPS

The Lake County Sheriff's Department has two gas pumps to provide gas for vehicles in the Sheriff's Department and various other Lake County Departments.

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The controls over the usage of the gas pumps are deficient as follows:

**NOT FOR PUBLIC RECORD
NOT FOR PUBLIC RELEASE**

- 1) Although a camera records the activity at the gas pumps, there is no one actually viewing the camera recordings of the vehicles filled at the gas pumps. Personal vehicles could be, and were, filled at the gas pumps, according to an article in the Post-Tribune.
- 2) No reconciliation is made between the actual gas usage per the pump readings and the total per the usage reports generated by the computer.
- 3) There is no periodic physical inventory taken of the gas on hand to compare actual consumption to usage 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 of Indiana, Chapter 1)