

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

AUDIT REPORT
OF
COUNTY COUNCIL
LAKE COUNTY, INDIANA
January 1, 2009 to December 31, 2009



FILED

01/07/2011

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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
President of the County Council	Larry Blanchard Thomas O'Donnell	01-01-09 to 12-31-09 01-01-10 to 12-31-10
President of the Board of County Commissioners	Roosevelt Allen, Jr. Frances DuPey	01-01-09 to 12-31-09 01-01-10 to 12-31-10



STATE OF INDIANA
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TO: THE OFFICIALS OF LAKE COUNTY

We have audited the records of the County Council for the period from January 1, 2009 to December 31, 2009, 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 2009.

STATE BOARD OF ACCOUNTS

September 15, 2010

COUNTY COUNCIL
LAKE COUNTY
AUDIT RESULTS AND COMMENTS

PAYROLL REPORTING ISSUES

The County is in the process of undergoing an Internal Revenue Service (IRS) audit for the tax year 2007. The IRS has noted the following deficiencies:

1. Numerous county employees received a Wage and Tax Statement, Form W-2 for wages and a Form 1099-MISC, Miscellaneous Income, for other services provided to the County. Services provided and reported on a "1099 MISC" did not incur payroll tax withholdings and did not incur the related employer taxes. Examples of these are employees who were also paid for working elections, being board members, having additional court related duties, providing legal services, and performing other miscellaneous duties outside of the employee's normal County employment.
2. Sick pay paid to employees was not reported correctly on the employee's W-2 as taxable income.
3. Life insurance premiums for coverage in excess of \$50,000, provided to employees, are a taxable fringe benefit. This benefit was not properly reported on the employee's W-2.
4. The County did not maintain adequate records to document that the County had substantiated the employee's social security number or a contractor's tax identification number (TIN). Backup withholding (an adjustment to the payment to the vendor) is required when an employer can not substantiate the vendor's identification number.

The County is currently in the process of negotiating the tax, penalty, and interest due on these deficiencies.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 5)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit. Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for County Auditor's of Indiana, Chapter 14)

CONTRIBUTIONS - "MATCHING FUNDS"

The County Council donated \$23,472.50 out of the General Fund in 2009 to local not-for-profit entities. The disbursements were designated as "matching funds".

COUNTY COUNCIL
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Governmental funds should not be donated or given to other organizations, individuals, or governmental units unless specifically authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Excess Amount Expended
Circuit Breaker Debt Service (325)	\$ 474,980
Exempt Park Bond (316)	11,030
Juvenile Probation Administration (246)	492

IC 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."

TRAVEL POLICY

The County Travel Policy, Ordinance 1316N, addresses only per diem rates; it does not specify when an employee is in travel status and, therefore, eligible for per diem payments. A formal policy defining travel status and eligibility for per diem is necessary to ensure consistency between departments when paying travel expenditures. This has been a comment in prior reports.

Each governmental unit should adopt a written travel policy in conformity with applicable statutes. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

USES OF COUNTY DRUG FREE COMMUNITY FUND

Lake County has a Drug Free Community Fund (#110) in the County's accounting system. Indiana statute requires the Local Coordinating Council (LCC), which is the Lake County Drug Free Alliance, to develop a comprehensive plan for the use of the money. Statute also requires that the plan shall be approved by the State Commission for a drug free Indiana, and that the county fiscal body (County Council) annually appropriate the fund to carry out such plan.

Review of the fund for the period 2005 to 2010 determined that annually, the County Council has appropriated money for use by the Superior Court - Criminal Division for drug testing. The County Council did not have the authority to appropriate fund 110 for use by the court. This annual appropriation for the courts has not been included in the plan developed by the LCC or approved by the State Commission. The Superior Court - Criminal Division has spent \$168,281 from fund 110 between the years 2005 to 2009.

COUNTY COUNCIL
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AUDIT RESULTS AND COMMENTS
(Continued)

IC 5-2-11-5(a) to (d) states:

"(a) As used in this section, 'commission' means the commission for a drug free Indiana established by IC 5-2-6-16. (b) Subject to subsections (c) and (d), a county fiscal body shall annually appropriate from the fund amounts allocated by the county legislative body for the use of persons, organizations, agencies, and political subdivisions to carry out recommended actions contained in a comprehensive drug free communities plan submitted by the local coordinating council and approved by the commission as follows:

- (1) For persons, organizations, agencies, and political subdivisions to provide prevention and education services, at least twenty-five percent (25%) of the money in the fund.
- (2) For persons, organizations, agencies, and political subdivisions to provide intervention and treatment services, at least twenty-five percent (25%) of the money in the fund.
- (3) For persons, organizations, agencies, and political subdivisions to provide criminal justice services and activities, at least twenty-five percent (25%) of the money in the fund.
- (4) A county fiscal body shall allocate the remaining twenty-five percent (25%) of the money in the fund to persons, organizations, agencies, and political subdivisions to provide services and activities under subdivisions (1) through (3) based on the comprehensive drug free communities plan submitted by the local coordinating council and approved by the commission.

(c) In the comprehensive drug free communities plan, the local coordinating council shall determine the amount of funds the county fiscal body shall appropriate to implement the objectives approved in the comprehensive drug free communities plan. (d) If the comprehensive drug free communities plan is not approved by the commission, the county fiscal body may not appropriate any funds at the request of the local coordinating council or any other local entity."

IC 5-2-11-6 states: "The fund may not be used to replace other funding for alcohol and drug abuse services provided to the county."

FEDERAL GRANT SCHEDULE

The County's Annual Financial Report, "Part 6 – Federal Grants" (Federal Grant Schedule) was incomplete for the year ended December 31, 2009. Each county department is responsible for overseeing and reporting their grants. County departments are responsible for applying for grants, presenting them to the council and commissioners, and accounting for the grants they receive. The Auditor's office is responsible for preparing the grant schedule annually based on the grant information provided by each department. The Federal Grant Schedule presented for audit was missing one major federal grant, several minor grants, and was not available for audit until July 15, 2010. The Federal Grant Schedule prepared by the officials was \$1,079,213 (12%) less than what was determined to be the federal expenditures reported for 2009. The County does not have adequate controls to insure that County departments adequately report grant information to the County Auditor's office in a timely and accurate manner.

COUNTY COUNCIL
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

The auditee shall:

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. (OMB Circular A-133, Subpart C--Auditees § __.300)

(b) Schedule of Expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. (OMB Circular A-133, Subpart C--Auditees § __.310)

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)

IC 36-2-3.5-5 states in part:

"(a) All powers and duties of the county that are legislative in nature shall be exercised or performed by its legislative body.

(b) The legislative body may:

- (1) establish the committees that are necessary to carry out its functions;
- (2) employ legal and administrative personnel necessary to carry out its functions;
- (3) pass all ordinances, orders, resolutions, and motions for the government of the county, in the manner prescribed by IC 36-2-4;
- (4) receive gifts, bequests, and grants from public or private sources;
- (5) conduct investigations into the conduct of county business for the purpose of correcting deficiencies and insuring adherence to law and county policies and regulations; . . ."

COUNTY COUNCIL
LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on September 26, 2010, with Thomas O'Donnell, President of the County Council.