

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

AUDIT REPORT

OF

COUNTY COUNCIL

LAKE COUNTY, INDIANA

January 1, 2010 to December 31, 2010



FILED

11/01/2011

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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Peggy Holinga Katona	01-01-07 to 12-31-14
Treasurer	John E. Petalas	01-01-07 to 12-31-14
President of the Board of County Commissioners	Frances DuPey Roosevelt Allen, Jr.	01-01-10 to 12-31-10 01-01-11 to 12-31-11
President of the County Council	Thomas O'Donnell Ted Bilski	01-01-10 to 12-31-10 01-01-11 to 12-31-11



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 Council for the period from January 1, 2010 to December 31, 2010, 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 2010.

STATE BOARD OF ACCOUNTS

August 25, 2011

COUNTY COUNCIL
LAKE COUNTY
AUDIT RESULTS AND COMMENTS

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Federal Audit Information (Federal Grant Schedule) was inaccurate for the year ended December 31, 2010. Each County department is responsible for overseeing and reporting their grants. County departments are responsible for applying for grants, presenting them to the County Council and the Board of County Commissioners, and accounting for the grants they receive. The County Auditor's office is responsible for preparing the grant schedule annually based on the grant information provided by each department.

The Federal Grant Schedule was presented for audit on March 15, 2011. A revised schedule was presented on March 24, 2011. The first schedule presented for audit underreported federal expenditures by \$1,688,714 or 14 percent of the total federal expenditures reported for 2010. The second schedule presented for audit was over reported federal expenditures by \$2,156,000 or 18 percent. Both of the schedules included State grant expenditures as Federal grant expenditures. Each schedule excluded some federal grant expenditures. Using grant files, ledgers and other documentation, a corrected Schedule of Federal Financial Assistance was prepared by examiners.

Controls have not been established by the County to ensure complete and accurate reporting of federal grant expenditures. The minutes for either the Board of County Commissioners or the County Council did not acknowledge many of the grants that were received. The individual departments do not have the opportunity to review the information the County Auditor presents in the Schedule to ensure all federal awards and expenditures are included and reported based upon their records and reports.

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 in Indiana, Chapter 1)

COUNTY COUNCIL
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

TEMPORARY LOAN

A temporary loan of \$5,500,000 was made on November 25, 2008, from the Employee Benefit Accruals - Health Insurance Reserve Fund (26514) to the County Bond Redemption Fund (322). The loan has not been repaid as of the date of this report. The initial resolution authorizing the loan had a stated repayment date of December 31, 2009. The County continuously extends the repayment date by six months pursuant to Indiana Code 36-1-8-4. The most recent resolution for extension was passed on June 15, 2011.

Indiana Code 36-1-8-4 states:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the fund that is in need of money for cash flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.
- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period.
- (5) Only revenues derived from the levying and collection of property taxes or special taxes or from operation of the political subdivision may be included in the amount transferred.

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

COUNTY COUNCIL
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

DORMANT FUNDS

The County reported cash balances in the financial statements for several funds for which there had not been any activity for the past two years. These funds include: Anti-Bioterrorism, Community Fund, Economic Development FMHA, Environmental Task Force, Juvenile Center Grants Fund, LC Voting System Cumulative, Public Works Tax Incentive, Reassessment 1999, US Research Consultant, and Vehicle License Fund.

Also, the County reported cash balances in the financial statements for the Court Improvement Grant, HIDTA, and Public Works Recycling Grant Funds for which there may be no future activity as the grants for which these funds were established have ceased.

Most counties have funds that have been inactive or dormant for a number of years. A sufficient fund balance should be retained to pay any outstanding obligations, such as bonds and interest coupons not surrendered for payment. However, to the extent of any balance not needed to cover outstanding obligations, every effort should be made by county auditors to eliminate such funds from the records. The following statutory authorities will be found governing the closing out of the above listed funds.

IC 5-1-13-2 provides that when bonds have been issued for any lawful purpose, and the purpose for which the debt was incurred has been accomplished or abandoned, the surplus or balance in such bond fund shall be transferred to the bond and interest redemption fund by the disbursing officer upon order of the legislative body. The funds so transferred are to be used for the payment of interest bearing indebtedness.

IC 36-1-8-5 is a general law which provides that unused and unencumbered balances in county funds which have been raised by levy on all of the taxable property of the county be transferred to the county general fund or rainy day fund, upon authority given by the county council. This section also provides that unused and unencumbered balances in funds for the redemption of poor relief bonds or like obligations for poor relief purposes by levy on all of the taxable property of a civil township be transferred to the poor relief fund of such township.

County auditors should examine any dormant funds carried on their ledgers with the view toward closing out such funds before December 31. (The County Bulletin and Uniform Compliance Guidelines, Vol. No. 353, October 2005)

CONTRIBUTIONS TO NOT-FOR-PROFITS

As stated in the prior audit, the County Council makes donations to various not-for-profit organizations from the General Fund. In 2010, these donations totaled \$24,360, and were identified as "matching funds."

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)

COUNTY COUNCIL
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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)

EMPLOYEES ALSO PAID AS CONTRACTORS

The County Attorney, the Assistant County Attorney, the County Council Attorney, and the Administrative Financial Director all received wages and benefits as employees and also received payments as vendors. Vendor services provided and reported on a "1099 Miscellaneous" did not incur payroll tax withholdings and did not incur the related employer taxes. A recent IRS (Internal Revenue Service) audit sited and assessed the County penalties for this type of payroll compliance error.

In addition, time records and contracts were not available for audit to provide supporting documentation for all services provided by some of these individuals.

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 County Auditor's of Indiana, Chapter 14)

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)

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for County Auditor's of Indiana, Chapter 14)

COUNTY COUNCIL
LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 25, 2011, with Ted Bilski, President of the County Council; Peggy Holinga Katona, Auditor; and John Dull, Attorney for the Board of County Commissioners.