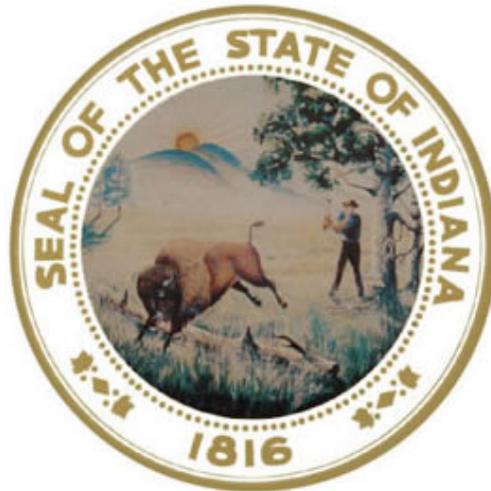


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF
COUNTY TREASURER
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>
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 Treasurer 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 TREASURER
LAKE COUNTY
AUDIT RESULTS AND COMMENTS

TREASURER'S CASH REPORTED AS UNFUNDED MONEY

The Treasurer collects and retains cash collections for subsequent distribution to the various governmental entities at tax settlement. These cash transactions for property and excise taxes, liens, etc., are reported in the financial statements as "Unfunded Money."

Each office at the County is required to prepare a report at year end to submit to the County Auditor so that the transactions can be reported in the County's Annual Report. It is from the County's Annual Report that the year-end financial statements are generated. The Treasurer did not prepare the year-end report for his office, so a Clerk in the County Auditor's office determined the amounts from computer generated reports she had access to; however, the reports she used included activity reported in the individual funds also. This resulted in the Unfunded Money Fund being materially overstated, due to inclusion of cash activities which were already accounted for in the individual funds. The Unfunded Money Fund cash balance at December 31, 2010, was overstated by \$15,273,754. Receipts and disbursements were overstated by \$487,830,572 and \$472,556,818, respectively.

Controls have not been established to compare reconciled cash and investment balances reported by the Treasurer, and each office of the County to the County Annual Report to ensure that the amounts being reported at year end are accurate and complete. By not establishing such controls, amounts are being reported which materially misrepresent the financial position of the County as a whole.

Other instances of either cash accounts not being reported, or transactions not being accurately reported were observed, but the amounts were not material in relation to the financial statement presentation. Examples of instances of cash balances or transactions not being reported accurately included the County Highway Maintenance Garage Bond, County Bond Improvements, Jail Commissary, Inmate Trust - Commissary, and Inmate Medical Funds. The material amounts were corrected through audit adjustments to the financial statements.

Indiana Code 5-11-1-4 states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be filed electronically, in a manner prescribed by the state examiner that is compatible with the technology employed by the political subdivision."

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.

COUNTY TREASURER
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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 County Treasurers of Indiana, Chapter 10)

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditor's Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 10)

AMOUNTS HELD WITH FISCAL AGENTS

The County issued bonds and the proceeds were placed in trust accounts. The County did not record the receipt or disbursement of the funds until the funds were released from the trust accounts, as the funds are released as needed to pay vendors. The funds released from the trust accounts were then recorded as receipts of the County Highway Maintenance Garage Bond and County Bond Improvements Funds, and as the claims were paid, the disbursements were recorded. At year end, the County Auditor reported cash and investment balances for the County Highway Maintenance Garage Bond Fund and County Improvements Fund of \$2,832, and \$0, respectively, in their County Annual Report. Cash and investment balances reported in the financial statements after allowing for audit adjustments to include the cash balances maintained in the trust accounts were \$778,422 for the County Highway Maintenance Garage Bond Fund, and \$252,201 for the County Bond Improvements Fund.

The County receives statements on the trust accounts monthly, but the County failed to recognize cash and investment balances in their funds.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditor's Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 10)

COUNTY TREASURER
LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 25, 2011, with John E. Petalas, Treasurer; Patty Shell and Larry Cak, Deputies to the Treasurer; Ted Bilski, President of the County Council; and John Dull, Attorney to the Board of County Commissioners. The official response has been made a part of this report and may be found on page 7.

JOHN PETALAS
TREASURER



CITY BRANCH OFFICES
EAST CHICAGO
HAMMOND
GARY

Treasurer Lake County

LAKE COUNTY GOVERNMENT CENTER
2293 NORTH MAIN STREET

CROWN POINT, INDIANA, 46307

August 25, 2011

Mr. Bruce Hartman CPA
State Examiner, Indiana
State Board of Accounts,
Indianapolis, Indiana.

Dear Mr. Hartman,

Please accept this letter as an official response to the audit results and comments of the Lake County, Indiana Treasurer's office, specifically to the remarks made about cash reported as unfunded money.

In the audit results it is indicated that each office in county government is required to prepare a report at year end to the County Auditor so that departmental transactions can be reported in the County's Annual Report. The audit findings state that the Treasurer did not prepare the year-end report for our office and thus the report was instead prepared by a clerk within the Auditor's office who used computer generated reports that resulted in the Unfunded Money Fund being materially overstated. The overstated amount shown on December 31, 2010 was actually the correct balance shown a couple days into the New Year.

The reason for this response is because our office never prepared this report in the past. For whatever reason, it was always prepared by the State Board of Accounts. In my 5 years as Treasurer the report was never prepared by our office and my Chief Book-keeper who has been here for over 30 years indicated the same on her part.

If there was a change as to who was supposed to prepare this report, our office was never notified. Although the end year balance is misstated because of the way the report was ultimately generated, the county's cash balances are correct, they just are not correct as a year-end balance.

Since the year-end balance was overstated due to the reporting requirements, I felt that it was necessary to respond to your findings since we were never notified that the reporting instrument was our responsibility. We will make sure that in the future our office does this report so that this error does not occur again.

SINCERELY,
JOHN E. PETALAS
LAKE COUNTY TREASURER