

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

AUDIT REPORT  
OF  
COUNTY TREASURER  
LAKE COUNTY, INDIANA  
January 1, 2012 to December 31, 2012



**FILED**  
04/08/2014



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
County Officials .....	2
Transmittal Letter .....	3
Audit Results and Comments:	
Internal Controls Over Treasurer's Daily Balance of Cash and Depositories .....	4
Delinquent Collection Fees Fund .....	5-7
Exit Conference.....	8

## COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	John E. Petalas	01-01-11 to 12-31-14
President of the County Council	Jerome A. Prince Ted F. Bilski	01-01-12 to 12-31-12 01-01-13 to 12-31-13
President of the Board of County Commissioners	Gerry J. Scheub Roosevelt Allen Jr.	01-01-12 to 12-31-12 01-01-13 to 12-31-13



**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, 2012 to December 31, 2012, 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 2012.

STATE BOARD OF ACCOUNTS

August 27, 2013

COUNTY TREASURER  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS OVER TREASURER'S DAILY BALANCE OF CASH AND DEPOSITORITES**

The Treasurer's Office is responsible for maintaining the Treasurer's Daily Balance of Cash and Depositories (Cash Book). The Cash Book reflects the daily receipts and disbursements, the total amount of cash and investments, and a proof of the financial condition of the office at the close of each day.

Cash short or cash long entries are recorded in the Cash Book indicating a difference between the ending balance of the taxes, other sources, funds and investments, when compared to the ending depository balances. Various cash short and cash long entries explanations during the year included voided transactions, credit card and electronic check payment timing differences, and bank errors.

The cumulative cash short and cash long amounts at December 31, 2010, 2011, and 2012 are noted as follows:

Description	2010	2011	2012
Cash Short	\$ 64,015.79	\$ 609,747.42	\$ 538,136.20
Cash Long	<u>269,328.50</u>	<u>147,075.89</u>	<u>150,436.29</u>
Net (Short)/Long	<u>\$ 205,312.71</u>	<u>\$ (462,671.53)</u>	<u>\$ (387,699.91)</u>

The cumulative cash short noted above, while large, is not material to the financial statements at December 31, 2012. However, the failure to establish controls to identify and find resolution to these items could cause a material misstatement of the financial statements in the future.

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 County Treasurers of Indiana, Chapter 4)

It is important that the amounts distributed at each semiannual settlement agree with the amounts shown in the treasurer's daily balance of cash and depositories, since a settlement and distribution in excess of the amounts entered in this record will result in "cash short" on the day the settlement is made. Conversely, if the settlement and distribution is made for less than the amount shown in this record, it will result in "cash long" for that day. Therefore, every effort should be made before settlement and distribution to see that the amounts distributed for each taxing district agree with the amounts entered in the register of taxes collected and in the treasurer's daily balance of cash and depositories. (Accounting and Uniform Compliance Guidelines Manual for County Treasurers of Indiana, Chapter 10)

COUNTY TREASURER  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

**DELINQUENT COLLECTION FEES FUND**

In 2002, the Board of County Commissioners entered into a contract with Tax Management Associates (TMA) to identify undervalued or omitted personal property not properly recorded in the County's tax system. Once identified by TMA, the County pursued collection of the delinquent taxes through outside attorneys. Prior to July 2012, when collection from these properties occurred, the delinquent tax and the attorney fees paid by the property owner were receipted into the Delinquent Collections Fee Fund (TMA Fund 235). TMA and the outside attorneys were paid from this fund.

On July 17, 2012, the balance of TMA Fund 235 was \$2,783,808.52. On the advice of the Board of County Commissioners' Attorney, the County Auditor transferred \$1,262,616.09 from the fund (based upon expenses estimated by the County Attorney) to the Collection Expense Reimbursement Fund (386). The remaining \$1,521,192.43 in the fund was transferred into the newly established Undervalued and Omitted Property Fund (387).

After July 2012, collection of delinquent taxes from these types of properties was receipted into the Undervalued and Omitted Property Fund. Also, after July 2012, the attorney fees paid by the property owners were receipted into the Collections Expense Reimbursement Fund (386). According to the statute cited below, the County Auditor is obligated to distribute \$2,965,148.52 to the appropriate taxing districts as detailed below:

Description	Amount
Undervalued and omitted personal property taxes erroneously transferred to the Collection Expense Reimbursement Fund	\$ 1,262,616.09
Undervalued and omitted personal property taxes erroneously transferred to the new Undervalued and Omitted Property Fund	1,521,192.43
2012 Undervalued and omitted property tax collections	<u>240,390.00</u>
Subtotal	3,024,198.52
Less documented expenses of collection	<u>(59,050.00)</u>
Total to be distributed to taxing districts	<u><u>\$ 2,965,148.52</u></u>

Indiana Code 6-1.1-23-7 states:

"(a) With respect to the collection of delinquent personal property taxes, the county treasurer shall charge the following collection expenses to each delinquent taxpayer:

- (1) For making a demand by:
  - (A) registered or certified mail, eight dollars (\$8); or
  - (B) any other manner permitted by section 1 of this chapter, five dollars (\$5).
- (2) For making a levy, ten dollars (\$10).

COUNTY TREASURER  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

- (3) For selling personal property, ten percent (10%) of the sale price.
- (4) For advertising a sale, the legal rates for advertising.
- (5) For transfer and storage of personal property, the actual expense incurred.
- (6) Other reasonable expenses of collection, including:
  - (A) title search expenses;
  - (B) uniform commercial code search expenses; and
  - (C) reasonable attorney's fees or court costs incurred:
    - (i) in the collection process;
    - (ii) due to a court order; or
    - (iii) due to an order of the treasurer; under IC 6-1.1-23-10

(b) The fees collected under this section are the property of the county and shall be deposited in the county general fund. The collection expenses incurred in connection with the levy upon and sale of personal property shall be paid from the county general fund without prior appropriation."

Indiana Code 6-1.1-36-12 states:

"(a) A board of county commissioners, a county assessor, or a township assessor (if any) may enter into a contract for the discovery of property that has been undervalued or omitted from assessment. The contract must prohibit payment to the contractor for discovery of undervaluation or omission with respect to a parcel or personal property return before all appeals of the assessment of the parcel or the assessment under the return have been finalized. The contract may require the contractor to:

- (1) examine and verify the accuracy of personal property returns filed by taxpayers with the county assessor or a township assessor of a township in the county; and
- (2) compare a return with the books of the taxpayer and with personal property owned, held, possessed, controlled, or occupied by the taxpayer.

(b) This subsection applies if funds are not appropriated for payment of services performed under a contract described in subsection (a). The county auditor may create a special nonreverting fund in which the county treasurer shall deposit the amount of taxes, including penalties and interest, that result from additional assessments on undervalued or omitted property collected from all taxing jurisdictions in the county after deducting the amount of any property tax credits that reduce the owner's property tax liability for the undervalued or omitted property. The fund remains in existence during the term of the contract. Distributions shall be made from the fund without appropriation only for the following purposes:

- (1) All contract fees and other costs related to the contract.



COUNTY TREASURER  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

- (2) After the payments required by subdivision (1) have been made and the contract has expired, the county auditor shall distribute all money remaining in the fund to the appropriate taxing units in the county using the property tax rates of each taxing unit in effect at the time of the distribution.
- (c) A board of county commissioners, a county assessor, or a township assessor may not contract for services under subsection (a) on a percentage basis."

COUNTY TREASURER  
LAKE COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on August 27, 2013, with John E. Petalas, Treasurer.