

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

AUDIT REPORT  
OF  
COUNTY AUDITOR  
LAKE COUNTY, INDIANA  
January 1, 2006 to December 31, 2006



**FILED**  
11/30/2007



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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Auditor	Peggy Holinga Katona	09-26-05 to 12-31-10
President of the County Council	Will A. Smith, Jr. Elsie Franklin	01-01-06 to 12-31-06 01-01-07 to 12-31-07
President of the Board of County Commissioners	Rudolph Clay Frances DuPey Gerry J. Scheub Roosevelt Allen, Jr.	01-01-06 to 04-07-06 04-08-06 to 05-16-06 05-17-06 to 12-31-06 01-01-07 to 12-31-07



**STATE OF INDIANA**  
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TO: THE OFFICIALS OF LAKE COUNTY

We have audited the records of the County Auditor for the period from January 1, 2006 to December 31, 2006, 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 2006.

STATE BOARD OF ACCOUNTS

September 19, 2007

COUNTY AUDITOR  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS

FEDERAL AND STATE AGENCIES COMPLIANCE REQUIREMENTS

The County Auditor did not comply with directives of the Internal Revenue Service by failing to issue Internal Revenue Service (IRS) Form 1099-Int as required. Payments of interest in excess of \$600 were made to the purchasers of properties from the County's property tax sale. These interest payments were not reported to the IRS.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

TAX SALE SURPLUS FUNDS

During 2006, there were no disbursements from the Tax Sale Surplus Fund (Fund 566) to the County General Fund for tax sale surplus receipts over three years old. Since reconcilements of the Tax Sale Surplus Fund were not performed for receipts prior to the 2006 tax sale, it was not possible to determine the amount that should have been transferred. However, a reconciliation as of March 2007 revealed a \$30,113.50 deficiency in the fund needed to balance the 2006 tax sale surplus receipts. This deficiency is likely due to duplicate refunds and other errors in prior years which were not discovered because the fund was not reconciled. A similar audit result and comment appeared in prior audit reports.

Indiana Code 6-1.1-24-7(d) states: "An amount deposited in the tax sale surplus fund shall be transferred by the county auditor to the county general fund and may not be disbursed under subsection (b) if it is not claimed within the three (3) year period after the date of its receipt."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

CORRECTION OF ERRORS ON THE TAX DUPLICATE

The prescribed form, County Form 127CE, Certificate of Error, was not in use to document the removal of taxes charged from the tax duplicates. In addition, only 60% of the corrections tested had adequate supporting documentation. There were several instances when County Form 133, Petition for Correction of Errors, was either not used when applicable or did not contain the appropriate number of signatures.

Indiana Code 6-1.1-15-12(f) states: "If a correction or change is made in the tax duplicate after it is delivered to the county treasurer, the county auditor shall transmit a certificate of correction to the county treasurer. The county treasurer shall keep the certificate as the voucher for settlement with the county auditor.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

COUNTY AUDITOR  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

PROPERTIES REMOVED FROM TAX SALE

Ten percent (10%) of properties tested that were removed from the October 2006, tax sale were removed without proper documentation. Two of these properties were included in a list of eight and seventeen properties, respectively, that were removed from the tax sale simultaneously.

There were also several newspaper articles in 2006 and 2007 concerning properties removed from tax sales due to notifications of bankruptcy filings. The properties noted were removed without adequate documentation to substantiate the bankruptcy filing or the existence of a current bankruptcy case. Many of these properties were kept off the tax sale lists for years even though the bankruptcy case had been discharged from court and the bankruptcy should have been removed from the property tax system. The County Treasurer has reviewed all bankruptcy properties in the system and has implemented new procedures to document how properties are excluded from tax sales.

Indiana Code 6-1.1-24-1.2(a) states: "Except as provided in subsection (c), a tract or an item of real property may not be removed from the list certified under section 1 of this chapter before the tax sale unless all delinquent taxes, special assessments, penalties due on the delinquency, interest, and costs directly attributable to the tax sale have been paid in full."

Indiana Code 6-1.1-24-4.7(b) and (c) state: "Not later than seven (7) days before the advertised date of the tax sale, the court shall conduct a hearing. At the hearing, the court shall hear any defense offered by any person interested in any of the tracts or items of real property to the entry of judgment against them, hear and determine the matter in a summary manner, without pleadings, and enter its judgment. The court shall enter a judgment under this subsection not later than three (3) days before the advertised date of the tax sale. The objection must be in writing, and no person may offer any defense unless the writing specifying the objection is accompanied by an original or a duplicate tax receipt or other supporting documentation. At least seven (7) days before the date set for the hearing, notice of the date, time, and place of the hearing shall be provided by the court to any person filing a defense to the application for judgment and order of sale. (c) If judgment is entered in favor of the respondent under these proceedings or if judgment is not entered for any particular tract, part of a tract, or items of real property because of an unresolved objection made under subsection (b), the court shall remove those tracts, parts of tracts, or items of real property from the list of tracts and real property provided under section 4.6 of this chapter."

PAYROLL DEFICIENCIES

Internal controls over payroll transactions were not adequate to ensure that county officials complied with all applicable state and local policies and procedures. Of the 25 employees' payroll records tested, 2 employees were paid for 56 and 24 vacation hours, respectively, in excess of those earned in accordance with the approved policy.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 14)

COUNTY ANNUAL REPORT

The Lake County Annual Financial Report for 2006 was not presented for audit until April 4, 2007, two months after it was due. In addition, Part 10 of the County Annual Financial Report, Financial Assistance to Nongovernmental Entities for the Fiscal Year Ending 2006, was not completed.

COUNTY AUDITOR  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Code 5-11-1-4(a) concerning annual reports, states in part: ". . . these reports shall be prepared, verified, and filed with the state examiner within thirty (30) days after the close of each fiscal year."

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

PRESCRIBED FORMS

Prescribed or approved forms were not always in use. The check registers prepared from the computerized financial and payroll accounting systems, used as official records, have not been approved by the State Board of Accounts. The forms were not originally approved because they did not contain all of the information included on the prescribed form and did not provide an adequate audit trail.

The State Board of Accounts is charged by law with the responsibility of prescribing and installing a system of accounting and reporting which shall be uniform for every public office and every public account of the same class. [IC 5-11-1-2] (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

Indiana Code 5-11-1-2(b) states in part: ". . . if a municipality elects to use an electronic, automated, or computerized system of accounting, the system must conform to the requirements of this chapter."

All governmental units are required by law to use the forms prescribed by this department; however, if it is desirable to use a different form or to have a prescribed form modified to conform for computer applications, a letter and three copies of the proposed form may be submitted to the State Board of Accounts for approval. No form should be printed and placed into use, other than a prescribed form, without prior approval. (Accounting and Uniform Compliance Guidelines Manual for County Auditors, Chapter 14)

COUNTY AUDITOR  
LAKE COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on October 2, 2007, with Peggy Holinga Katona, Auditor; and Michael T. Weiser, Director of Finance. The official response has been made a part of this report and may be found on pages 8 and 9.

The contents of this report were also discussed on September 27, 2007, with Roosevelt Allen, Jr., President of the Board of County Commissioners; and on October 10, 2007, with Elsie Franklin, President of the County Council, and Larry Blanchard, Councilman.



*Auditor Lake County*

LAKE COUNTY GOVERNMENT CENTER  
2293 NORTH MAIN STREET  
CROWN POINT, INDIANA 46307



RESPONSE TO AUDIT FINDINGS  
LAKE COUNTY AUDITOR'S OFFICE  
YE 12/31/06

FEDERAL AND STATE AGENCIES COMPLIANCE REQUIREMENTS

When first notified that our office was non-compliant with directives of the Internal Revenue Service, The Auditor's office, in conjunction with data processing using our Lawson data systems, have instituted a program to identify all vendors, including Tax Sale buyers and tax refund recipients.

A new process to identify interest payments to individual recipients has been implemented, and automatic 1099-int forms will be generated and mailed to those taxpayers per directives from the Internal Revenue Service.

TAX SALE SURPLUS FUNDS

This office acknowledges this previous finding and continues tracking and reconciling all new transactions

CORRECTION OF ERRORS ON THE TAX DUPLICATE

Our system generated C of E listing has all the required information. The volume of corrections that we generate does present problems in the amount of paperwork generated.

With the information the system generates, our office will institute a new filing system to be able to identify the assigned C of E number to all pertinent information with each particular correction.

PROPERTIES REMOVED FROM TAX SALE

The Auditor's office was the first to question the validity of the removal of properties from tax sale. Prior tax sale information from the Treasurer's office has, in prior years, always been accepted as directed.

The Treasurer's office has instituted new policies and procedures and worked together with our office to assure all documentation is properly substantiated prior to the removal of property from tax sale.

### PAYROLL DEFICIENCIES

The Auditor's office acknowledges the findings. New procedures along with training of new personnel should prevent these oversights.

### COUNTY ANNUAL REPORT

The Auditor's office acknowledges the timing of the County Annual Financial Report was not in compliance.

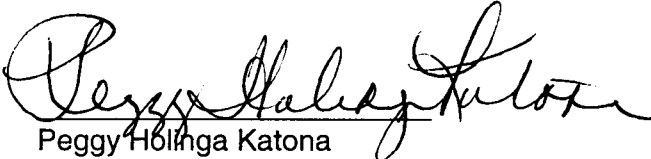
Our finance department has been able to work with data processing to complete reports, previously not available until the end of February, by Jan 1<sup>st</sup>. This should help us to finalize the report in the required amount of time

Part 10 of the Financial Report will be completed and filed in the Financial report in all future years.

### PRESCRIBED FORMS

The Auditor's office has requested that the State Board of Accounts approve the check register in question and is awaiting a decision.

Respectfully submitted on this the 2<sup>nd</sup> Day October 24, 2006



Peggy Holinga Katona  
Lake County Auditor