

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

SPECIAL INVESTIGATION REPORT
OF

CITY COURT
CITY OF LAKE STATION
LAKE COUNTY, INDIANA

January 1, 2016 to January 31, 2017



FILED
01/11/2018

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Transmittal Letter	2
City Court:	
Results and Comments:	
Collections Not Deposited	3
Unauthorized Cash Withdrawal	3
Examination Costs - Collections Not Deposited and Cash Withdrawal	3
Crime Insurance	4
Bank Reconciliation - Internal Controls and Compliance	4
Deposits Not Made Timely	5
Exit Conference	6
Official Response.....	7-8
Summary of Charges.....	9
Affidavit.....	11



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE CITY COURT, CITY OF LAKE STATION, LAKE COUNTY, INDIANA

This is a special investigation report for the City Court, City of Lake Station, for the period January 1, 2016 to January 31, 2017, and is in addition to any other report for the City as required under Indiana Code 5-11-1. All reports pertaining to the City may be found at www.in.gov/sboa/.

We performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts and were limited to records associated with receipts and disbursements of the City Court. The Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

The Official Response to the Results and Comments, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

May 11, 2017

CITY COURT
CITY OF LAKE STATION
RESULTS AND COMMENTS

COLLECTIONS NOT DEPOSITED

Cash collections from December 15, 2016, were not deposited. The deposit ticket dated December 14, 2016, was prepared for the full amount of the collections, which totaled \$533.50, and was found in a file cabinet along with cash totaling \$148. Cash collections of \$385.50 were missing.

Nicole Frizzell (Frizzell), former City Court Clerk, was responsible for balancing the receipts to the collections, preparing the deposit ticket, and taking the deposit to the bank.

Indiana Code 5-13-6-1(d) states in part:

". . . a city . . . shall deposit funds not later than the next business day following the receipt of the funds in depositories:

- (1) selected by the city . . . as provided in an ordinance adopted by the city . . . and
- (2) approved as depositories of state funds."

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance or nonfeasance in the office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

We requested that Frizzell reimburse the City Court \$385.50 for the collections not deposited. (See Summary of Charges, page 9)

UNAUTHORIZED CASH WITHDRAWAL

On December 2, 2016, a cash withdrawal of \$250 was made from the City Court bank account without authority. The cash withdrawal ticket indicated the cash was withdrawn by Frizzell.

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance or nonfeasance in the office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

We requested that Frizzell reimburse the City Court \$250 for the unauthorized cash withdrawal. (See Summary of Charges, page 9)

EXAMINATION COSTS - COLLECTIONS NOT DEPOSITED AND CASH WITHDRAWAL

The State of Indiana incurred additional examination fees in the amount of \$685.50 for the special investigation of the City Court. (See Summary of Charges, page 9)

Audit costs incurred because of theft and shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

CITY COURT
CITY OF LAKE STATION
RESULTS AND COMMENTS
(Continued)

CRIME INSURANCE

The City of Lake Station had a Crime Insurance Policy which covered the 12 month period from May 1, 2016 through May 1, 2017. The policy was with One Beacon America Insurance Company and provided \$500,000 of coverage for public employee dishonesty with a \$500 deductible for employees of the City of Lake Station.

BANK RECONCILEMENT - INTERNAL CONTROLS AND COMPLIANCE

Internal Controls

The same person who was responsible for collecting cash, balancing the collections to receipts, preparing the deposit ticket, taking collections to the bank, and issuing and signing checks was also responsible for reconciling the bank account. No one was reviewing the bank statements, bank reconcilements, and ledgers to ensure the banks were being reconciled timely and accurately.

The State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Compliance

The bank account for the City Court was not reconciled. The computer software produced a bank reconciliation report which consisted only of a list of checks. Complete reconciliations of the bank balances as of the end of the month, adjusted for deposits in transit, outstanding checks, and fees and other adjustments or reconciling items, were not prepared.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

CITY COURT
CITY OF LAKE STATION
RESULTS AND COMMENTS
(Continued)

DEPOSITS NOT MADE TIMELY

Deposits were not made by the following day as required by law as follows:

<u>Receipt Date</u>	<u>Deposit Date</u>
09-30-16	10-06-16
11-22-16	11-28-16
12-02-16	12-06-16
12-12-16	12-15-16
12-13-16	12-20-16
12-16-16	12-20-16

Indiana Code 5-13-6-1(d) states in part:

". . . a city . . . shall deposit funds not later than the next business day following the receipt of the funds in depositories:

- (1) selected by the city . . . as provided in an ordinance adopted by the city . . . and
- (2) approved as depositories of state funds."

CITY COURT
CITY OF LAKE STATION
EXIT CONFERENCE

The contents of this report were discussed on August 28, 2017, with Nicole Frizzell, former City Court Clerk.

The contents of this report were also discussed on August 31, 2017, with Joshua Matejczyk, City Court Judge; Christopher Anderson, Mayor; and Jennifer Miller, Council member.

OFFICIAL RESPONSE TO
SPECIAL INVESTIGATION REPORT OF
CITY COURT OF CITY OF LAKE STATION

State Examiner Paul D. Joyce, CPA
State Board of Accounts
302 West Washington Street, Room E 418
Indianapolis, Indiana 46204-2765

Dear Mr. Joyce,

With regard to the report findings under subheadings “Collections Not Deposited”, “Cash Withdrawal”, “Examinations Costs – Collections Not Deposited And Cash Withdrawal”, and “Deposits Not Made Timely”, I am saddened to see that the examination did confirm wrongdoing on the part of the former court employee in question, but am fully supportive of the findings. The requests made by the State Board of Accounts of the former clerk appear, in my opinion, to be reasonable and just given the circumstances, and I am again fully in support of these requests.

As to the issue of the untimely deposits, this matter had been addressed with the current court staff prior to the conclusion of the special examination.

I would like to further address some of the findings in the report under subheading “Bank Reconciliation – Internal Control And Compliance”. First, I do not dispute the findings in this section of the report, particularly with regard to the issue of internal controls. All internal control policies in effect prior to my taking office remained in effect afterwards as all of the court employees involved were employees of the previous administration and thus had significant experience working within these controls and guidelines.

Upon discovering evidence suggesting there may have been some improprieties related to court deposits and record keeping, it became evident to me that the internal control policies in place at that time were insufficient. I immediately instituted new policies to segregate duties amongst the staff who handle payments, deposits, withdrawals and other issues of court finance. This included insuring that I personally review all withdrawals, payments, checks and any other transactions involving funds being paid out from the court.

Because the court is currently operating with only one full time clerk at this time, I have not been able to completely implement all of the policies I wish to insure complete segregation of duties. However, the policies to insure such separation are in place and will be fully implemented upon the hiring of a second full-time clerk. These policies will include insuring that the clerk responsible for reconciling the bank account does not prepare deposit receipts nor issue checks. This will minimize the opportunity for any one individual to abscond with any court funds, and will insure any attempt at any form of financial impropriety is caught immediately.

Additionally, the issue of reconciling the bank account has been rectified. This was an issue brought about, quite simply, by the former court employee failing to perform all of the requirements of her position. At present, the court's bank account is fully reconciled at the end of each month as required. In addition, the court will be working with a financial advisor hired by the City to insure continued compliance with all requisite state laws.

Finally, I want to thank the State Board of Accounts for conducting such a thorough investigation and offering assistance on insuring actions such as those detailed in the report do not happen again.

Thank you again for your time and hard work.

Sincerely,

Joshua M. Matejczyk
Judge, Lake Station City Court

CITY COURT
 CITY OF LAKE STATION
 SUMMARY OF CHARGES
 (Due to Malfeasance, Misfeasance, or Nonfeasance)

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Nicole Frizzell, former City Court Clerk:			
Collections Not Deposited, page 3	\$ 385.50	\$ -	\$ 385.50
Unauthorized Cash Withdrawal, page 3	<u>250.00</u>	<u>-</u>	<u>250.00</u>
Subtotal	<u>635.50</u>	<u>-</u>	<u>635.50</u>
Examination Costs - Collections Not Deposited and Cash Withdrawal, page 3	<u>635.50</u>	<u>-</u>	<u>635.50</u>
Totals	<u><u>\$ 1,271.00</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,271.00</u></u>

This report was forwarded to the Office of the Indiana Attorney General and the local prosecuting attorney.

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AFFIDAVIT

STATE OF INDIANA)
Porter COUNTY)

I, Michelle M. Janosky, Field Examiner, being duly sworn on my oath, state that the foregoing report based on the official records of the City Court, City of Lake Station, Lake County, Indiana, for the period from January 1, 2016 to January 31, 2017, is true and correct to the best of my knowledge and belief.

Michelle M. Janosky
Field Examiner

Subscribed and sworn to before me this 6 day of 11, 2017

Nancy Daniel
(Notary Public)

My Commission Expires: 3/21/18

County of Residence: Porter

