

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

LAKE COUNTY, INDIANA

January 1, 2017 to December 31, 2017



**FILED**  
10/17/2018



## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials .....	3
Transmittal Letter .....	4
County Auditor:	
Federal Finding:	
Finding 2017-001	
Treasurer's Daily Balance of Cash and Depositories and Auditor's Funds Ledger .....	6-7
Corrective Action Plan .....	8
Audit Results and Comments:	
Overdrawn Cash Balances .....	9
Accounts Payable Vouchers Deficiencies.....	9-11
Commissioner's Tax Sale Distribution .....	11-13
Auditor Settlement Funds .....	13-14
Auditor's Ineligible Deductions Fund.....	14-15
Receipt Issuance - Tax Sale Department .....	15
Exit Conference .....	16
County Treasurer:	
Federal Finding:	
Finding 2017-001	
Treasurer's Daily Balance of Cash and Depositories and Auditor's Funds Ledger .....	18-19
Corrective Action Plan .....	20
Exit Conference .....	21
Clerk of the Circuit Court:	
Federal Finding:	
Finding 2017-002	
Financial Transactions and Reporting .....	24-25
Corrective Action Plan .....	26
Audit Results and Comments:	
Bank Account Reconciliations.....	27-28
Credit Card Transactions - Internal Controls .....	28-30
Bond Forfeitures.....	30-31
Official Response.....	32
Exit Conference .....	33

TABLE OF CONTENTS  
(Continued)

<u>Description</u>	<u>Page</u>
County Sheriff:	
Audit Results and Comments:	
Inmate Trust Records.....	36
Failure to Report Misappropriation of Funds .....	36-37
Civil Division Software System .....	37-38
Official Response.....	39-41
Exit Conference .....	42
County Recorder:	
Audit Results and Comments:	
Fee and Cash Book .....	44
Bank Account Reconciliations and Remittances .....	44-45
Overdrawn Cash Balance .....	45
Exit Conference .....	46
Community Economic Development Department:	
Federal Finding:	
Finding 2017-003	
HOME Investment Partnerships Program - Reporting .....	48-49
Corrective Action Plan.....	50
Exit Conference.....	51
Board of County Commissioners:	
Audit Results and Comments:	
Accounts Payable Vouchers Deficiencies.....	54-56
Commissioner's Tax Sale Distribution .....	56-58
Official Response.....	59-66
Exit Conference .....	67

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	John Petalas	01-01-15 to 12-31-18
County Treasurer	Peggy Holinga Katona	01-01-15 to 12-31-18
Clerk of the Circuit Court	Michael A. Brown	01-01-15 to 12-31-18
County Sheriff	John Buncich Matt Eaton (acting) Oscar Martinez, Jr.	01-01-15 to 08-24-17 08-25-17 to 09-15-17 09-16-17 to 12-31-18
County Recorder	Michael B. Brown	01-01-17 to 12-31-20
President of the Board of County Commissioners	Michael C. Repay Kyle W. Allen, Sr.	01-01-17 to 12-31-17 01-01-18 to 12-31-18
President of the County Council	Ted F. Bilski, II David Hamm	01-01-17 to 12-31-17 01-01-18 to 12-31-18



**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](http://www.in.gov/sboa)

TO: THE OFFICIALS OF LAKE COUNTY, INDIANA

This report is supplemental to our audit report of Lake County (County), for the period from January 1, 2017 to December 31, 2017. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the County. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the County, which provides our opinions on the County's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit 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.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

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

September 11, 2018

COUNTY AUDITOR  
LAKE COUNTY

COUNTY AUDITOR  
LAKE COUNTY  
FEDERAL FINDING

***FINDING 2017-001***

Subject: Treasurer's Daily Balance of Cash and Depositories and Auditor's Funds Ledger  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-002.

*Condition*

The County Treasurer's office maintained the Treasurer's Daily Balance of Cash and Depositories (Cash Book). The Cash Book reflected 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. The County Treasurer's office did not have an effective system of controls in place designed to prevent, or detect and correct, errors associated with the cash reconciliation.

As part of the monthly reconciliation process, the County Auditor's office compared the County Auditor's funds ledger balance to the County Treasurer's calculated Funds Ledger line per the Cash Book. Effective procedures had not been established to ensure that reconciling items between the County Auditor's and County Treasurer's offices were corrected timely. Variances between the County Auditor and County Treasurer's records dated back to 2011 remained unresolved as of July 2018.

*Context*

This was a systemic issue throughout the audit period.

*Criteria*

The Indiana 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.

COUNTY AUDITOR  
LAKE COUNTY  
FEDERAL FINDING  
(Continued)

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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities. . . .

- Accurate and timely recording of transactions. . . ."

*Cause*

Management of the County had not established an effective system of internal controls.

*Effect*

The failure to establish effective controls could have enabled material misstatements or irregularities to remain undetected.

*Recommendation*

We recommended that the County Auditor's and Treasurer's offices work together to resolve the variance in the County Treasurer's Cash Book "Funds Ledger - Cash" and establish an effective system of controls to prevent, or detect and correct, future errors.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

JOHN E. PETALAS  
AUDITOR



*Auditor Lake County*

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



CORRECTIVE ACTION PLAN

**FINDING 2017--001**

John E. Petalas  
petaljx@lakecountyin.org  
219.755.3901


We agree with the repeat finding identified.

Description of Corrective Action Plan:

The County Auditors' Office will continue to work with the Treasurers' Office to resolve the discrepancies that have been unresolved since 2011.

Anticipated Completion Date:

We expect to resolve the issues within the next six months.

  
John E. Petalas

\_\_\_\_\_  
Lake County Auditor

\_\_\_\_\_  
09-11-18  
(Date)

COUNTY AUDITOR  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS

**OVERDRAWN CASH BALANCES**

The same comment also appeared in five prior reports, including the three most recent Reports B47573, B47575, and B49219.

The financial statement in the Financial Statement and Federal Single Audit Report included the following funds with overdrawn cash balances at December 31, 2017:

Fund	Amount Overdrawn
Recorder's Incentive (Combined and reported as part of Recorder's Records Perpetuation)	\$ 125,017
Auditor's Tax Incentive	22,332
93.563 County IV-D Incentive	36,107

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

**ACCOUNTS PAYABLE VOUCHERS DEFICIENCIES**

The same comment also appeared in five prior reports, including the three most recent Reports B47573, B47575, and B49219.

In 2017, the County disbursed funds before approval by the Board of County Commissioners at a public meeting and the Accounts Payable Vouchers that support manual checks and EFTs (white claims) were not included on the official Accounts Payable Voucher Register or docket approved or ratified by the Board of County Commissioners at a public meeting. The County's codified ordinances did not include an ordinance authorizing the County Auditor to pay accounts payable vouchers prior to the Board of County Commissioner's approval.

In response to the comment in the prior reports, on February 14, 2017, the County Council adopted Ordinance 1405C which addressed prepayments of EFTs and other disbursements. After Ordinance 1405C was adopted, Accounts Payable Vouchers for prepaid items did contain two Commissioners' signatures before the disbursement was made and ratified at the next Board of County Commissioners' meeting. However, Ordinance 1405C did not address specific type of expenses that can be prepaid in accordance with Indiana Code.

Then on September 13, 2017, the County adopted Ordinance 1412C, which addressed the specific types of expenses that can be prepaid in accordance with Indiana Code. In addition, the Board of County Commissioners approved a blanket ratification of prepaid claims as documented in the Board of County Commissioners' minutes. The Commissioners received listings for part of 2017 in the Board of County Commissioners' meeting agenda packet of those prepaid claims previously signed by two Commissioners. The blanket ratification did not provide enough detail (dollar amount of total, docket number, and date) to follow through to the correct detailed listing of prepaid items. The detailed list of prepaid accounts payable vouchers was not signed by the Board of County Commissioners nor were prepaid accounts payable vouchers included in the official Accounts Payable Voucher Register or docket.

COUNTY AUDITOR  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .

- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

Indiana Code 5-11-10-2(e) states:

"Where under any law it is provided that each claim be allowed over the signatures of members of a governing body, or a claim docket or accounts payable voucher register be prepared listing claims to be considered for allowance, the form and procedure prescribed in this section shall be in lieu of the provisions of the other law."

Indiana Code 36-2-6-4 states in part:

". . . (b) Except as provided in section 4.5 of this chapter, the county executive may allow a claim or order the issuance of a county warrant for payment of a claim only at a regular or special meeting of the executive. The county auditor may issue a county warrant for payment of a claim against the county only if the executive or a court orders him to do so. . . .

(c) The county executive may allow a claim if the claim:

- (1) complies with [IC 5-11-10-1.6](#); and
- (2) is placed on the claim docket by the auditor at least five (5) days before the meeting at which the executive is to consider the claim. . . ."

Indiana Code 36-2-6-4.5 states:

"(a) A county executive may adopt an ordinance allowing money to be disbursed for lawful county purposes under this section.

(b) Notwithstanding [IC 5-11-10](#), with the prior written approval of the board having jurisdiction over the allowance of claims, the county auditor may make claim payments in advance of board allowance for the following kinds of expenses if the county executive has adopted an ordinance under subsection (a):

- (1) Property or services purchased or leased from the United States government, its agencies, or its political subdivisions.
- (2) License or permit fees.
- (3) Insurance premiums.
- (4) Utility payments or utility connection charges.

COUNTY AUDITOR  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

- (5) General grant programs where advance funding is not prohibited and the contracting party posts sufficient security to cover the amount advanced.
  - (6) Grants of state funds authorized by statute.
  - (7) Maintenance or service agreements.
  - (8) Leases or rental agreements.
  - (9) Bond or coupon payments.
  - (10) Payroll.
  - (11) State or federal taxes.
  - (12) Expenses that must be paid because of emergency circumstances.
  - (13) Expenses described in an ordinance.
- (c) Each payment of expenses under this section must be supported by a fully itemized invoice or bill and certification by the county auditor.
- (d) The county executive or the county board having jurisdiction over the allowance of the claim shall review and allow the claim at its next regular or special meeting following the preapproved payment of the expense."

Prior to submission to the board of county commissioners, all claims or vouchers must be entered in claim number order in the Accounts Payable Register, General Form No. 364 (1996). This is a loose leaf form and contains columns to show the date each claim or voucher was filed, the claim or voucher number, the name of the claimant, the office, department or fund, the amount of the claim or voucher, the amount allowed and the warrant number. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 8)

**COMMISSIONER'S TAX SALE DISTRIBUTION**

The same comment also appeared in six prior reports, including the three most recent Reports B47573, B47575, and B49219.

Proceeds from the sale of tax certificates at the Commissioners' Tax Sale, were recorded in the Commissioner's Tax Certificate Sale fund. This fund was combined with the Tax Sale Fees - SRI, Inc. fund, and the Treasurer's Tax Sale fund and presented as the Tax Sale Fees fund on the financial statement.

The Commissioner's Tax Certificate Sale fund had a beginning balance of \$169,512, reported \$2,475,690 in receipts, and \$1,930,135 in disbursements, resulting in an ending balance of \$715,067. The fund received \$2,475,690 in receipts from two Commissioners Sales in 2017. Of those proceeds, no amount was applied to property taxes, special assessments, and penalties for the properties related to the tax certificates sold in 2017. Funds were disbursed for professional services, advertising, and other tax sale related expenses. In addition, \$526,267 was transferred from this fund to three incentive funds as an

COUNTY AUDITOR  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

allocation of payroll costs attributed to the tax sale. The maximum amounts transferred were determined by Ordinance 1333A established in 2011 as the estimated cost of payroll for the Commissioners' Tax Sale. Direct costs of the tax sale may be paid from the proceeds from the sale; however, only the actual costs incurred may be reimbursed. The transfers, based upon direction received from the County Council during 2011, 2012, 2013, 2014, 2015, 2016, and 2017 were as follows:

Fund	2011	2012	2013	2014	2015	2016	2017
Auditor's Tax Incentive Fund	\$ 236,000	\$ 236,000	\$ 236,000	\$ 236,000	\$ 236,000	\$ 78,667	\$ 236,000
Comm Incentive Fund	250,000	300,000	250,000	350,000	300,000	65,104	50,267
Recorder's Incentive Fund **	100,000	100,000	100,000	100,000	100,000	-	-
Treasurer's Incentive Fund	240,000	240,000	240,000	240,000	240,000	80,000	240,000
Non-reverting Self Ins. Fund	-	-	-	500,000	250,000	-	-
<b>Total Transfers received</b>	<b><u>\$ 826,000</u></b>	<b><u>\$ 876,000</u></b>	<b><u>\$ 826,000</u></b>	<b><u>\$ 1,426,000</u></b>	<b><u>\$ 1,126,000</u></b>	<b><u>\$ 223,771</u></b>	<b><u>\$ 526,267</u></b>

\*\*Combined with and reported as Recorder's Record Perpetuation on the Financial Statement.

The 2017 disbursements and December 31, 2017 cash balances of the incentive funds were as follows:

Fund	Disbursements	Cash Balance
Auditor's Tax Incentive	\$ 273,550	\$ (22,332)
Comm Incentive Fund	84,687	9,779
Treasurer's Incentive Fund	<u>292,899</u>	<u>84,301</u>
<b>Totals</b>	<b><u>\$ 651,136</u></b>	<b><u>\$ 71,748</u></b>

The ending balances in the incentive funds further support the determination that the transferred amounts exceeded the actual direct payroll costs incurred. The balance in the incentive funds at the end of 2017 was \$71,748.

Ordinance 1333A also states that 40 percent of the net proceeds, up to \$1,000,000, are to be deposited into the Commissioners' Tax Sale fund and only the net proceeds above the \$1,000,000 are to be distributed to the appropriate units of government where the respective tax certificate properties were located. Indiana Statute does not allow for this allocation; only direct costs, property taxes, special assessments, and penalties are to be paid. Any amount received in excess of those disbursements allowed by statute, should be deposited into the Tax Sale Surplus fund and not retained in the Tax Sale Fees fund. In addition, although not separately identified in the receipts from the Commissioners' Tax Sale, disbursements from the Commissioner's Tax Sale Certificate fund were made for the redemption of properties. Accounting for the redemption of properties should be in the Tax Sale Redemption fund.

Indiana Code 6-1.1-24-6.4 states in part:

"(a) When a certificate of sale is sold section 6.1 of this chapter, the purchaser at the sale shall immediately pay the amount of the bid to the county treasurer. The county treasurer shall apply the payment in the following manner:

COUNTY AUDITOR  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

- (1) First, to the taxes, special assessments, penalties, and costs described in section 5(e) of this chapter.
- (2) Second, to other delinquent property taxes in the manner provided in [IC 6-1.1-23-5\(b\)](#).
- (3) Third, to a separate 'tax sale surplus fund.'

(b) For any tract or item of real property for which a tax sale certificate is sold under section 6.1 of this chapter, if taxes or special assessments, or both, become due on the tract or item of real property during the period of redemption specified under [IC 6-1.1-25-4](#), the county treasurer may pay the taxes or special assessments, or both on the tract or item of real property from the tax sale surplus held in the name of the taxpayer, if any, after the taxes or special assessments become due.

(c) The:

- (1) owner of record of the real property at the time the tax deed is issued who is divested of ownership by the issuance of a tax deed; or
- (2) purchaser of the certificate or the purchaser's assignee, upon redemption of the tract or item of real property;

may file a verified claim for money that is deposited in the tax sale surplus fund. If the claim is approved by the county auditor and the county treasurer, the county auditor shall issue a warrant to the claimant for the amount due.

(d) Unless the redemption period specified under [IC 6-1.1-25](#) has been extended under federal bankruptcy law, 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 (c) if it is claimed more than three (3) years after the date of its receipt. . . ."

All counties must implement the use of the new chart of accounts by January 1, 2012. (The County Bulletin and Uniform Compliance Guidelines, January 2011)

The deadline has been extended to January 1, 2013. (The County Bulletin and Uniform Compliance Guidelines, January 2012)

### **AUDITOR SETTLEMENT FUNDS**

The same comment also appeared in four prior reports including the three most recent Reports B475573, B47575, and B49219.

The Settlement fund did not have a zero balance before or after the reconciliation of the settlement of tax collections. The January 1, 2017 balance of the settlement fund was \$216,264 and the December 31, 2017 balance of the Settlement fund was \$216,564.

COUNTY AUDITOR  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

The Settlement fund is an agency fund that is used to account for the tax collections certified by the Treasurer. Those certified collections are receipted into the Settlement fund to be distributed by the County to the appropriate taxing units. Before and after the settlement process, the fund balance should be zero. Balances remaining in the Settlement fund could indicate that not all certified collections have been distributed to the appropriate taxing units or that funds were incorrectly deposited into the Settlement fund that should be posted to another fund. The County was advised to research the balances in the Settlement fund.

Indiana Code 6-1.1-27-1(a) states:

"On or before June 20th and December 20th of each year, the county auditor and the county treasurer shall meet in the office of the county auditor. Before each semi-annual meeting, the county auditor shall complete an audit of the county treasurer's monthly reports required under [IC 36-2-10-16](#). In addition, the county auditor shall:

- (1) prepare a certificate of settlement on the form prescribed by the state board of accounts; and
- (2) deliver the certificate of settlement to the county treasurer at least two (2) days before each semi-annual meeting."

Indiana Code 6-1.1-27-2 states:

"At each semi-annual meeting required under section 1 of this chapter, the county treasurer shall make a settlement with the county auditor for the amount of taxes and special assessments which the county treasurer has collected. At each semi-annual meeting, the county treasurer shall also certify to the county auditor, under oath and on the form prescribed by the state board of accounts, the correctness of:

- (1) the credits for cash collected for each taxing unit appearing on the tax duplicate; and
- (2) any other amounts collected by the county treasurer as required by law."

**AUDITOR'S INELIGIBLE DEDUCTIONS FUND**

A similar comment also appeared in two prior Reports B47575 and B49219.

An analysis to determine if the net receipts exceeded \$100,000 within the calendar year for the Auditors Ineligible Deductions fund was completed. In January of 2017, \$700,000 was transferred to the General fund for the \$660,313 surplus amount determined for 2016. However, the \$1,284,019 surplus amount determined for 2015 had not been transferred to the General fund in accordance with Indiana Code 6-1.1-36-17(d). As of December 31, 2017, the Auditors Ineligible Deductions fund had a balance of \$1,470,145.

Indiana Code 6-1.1-36-17(d) effective July 1, 2016, and Indiana Code 6-1.1-36-17(c) effective January 1, 2017, state:

"Each County auditor shall establish a nonreverting fund. Upon collection of the adjustment in tax due (and any interest and penalties on that amount) after the termination of a deduction or credit as specified in subsection (b), the county treasurer shall deposit that amount:

COUNTY AUDITOR  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

(1) in the nonreverting fund, if the county contains a consolidated city; or

(2) if the county does not contain a consolidated city:

(A) in the nonreverting fund, to the extent that the amount collected, after deducting the direct cost of any contract, including contract related expenses, under which the contractor is required to identify homestead deduction eligibility, does not cause the total amount deposited in the nonreverting fund under this subsection for the year during which the amount is collected to exceed one hundred thousand dollars (\$100,000); or

(B) in the county general fund, to the extent that the amount collected exceeds the amount that may be deposited in the nonreverting fund under clause (A)."

It is our position that this does not restrict the balance amount that may be carried forward. The restriction is placed on the amount of receipts that may be deposited in the Auditor's Ineligible Deductions fund for a calendar year.

In a memo regarding Changes affecting the 1% Tax Cap and Homestead Deduction Non-Reverting Fund, dated June 20, 2013, the Department of Local Government Finance stated in part:

". . . there is a limitation on receipts to be deposited in the fund each year for counties that do not contain a consolidated city. In order to properly deposit and comply with this limit, if applicable, the county should review the receipt amount for the calendar year each time a deposit to the non-reverting fund is to be made. The annual receipt amount net of contract costs to identify homestead deduction eligibility must not exceed \$100,000. Any additional collections in a calendar year must be deposited into the county general fund. As the effective date for this statutory change is July 1, 2013, at the point in time after June 30, 2013 that this net receipt amount equals \$100,000 for the year, any additional collections that calendar year must be deposited into the county general fund."

Because costs that are to be netted against the annual receipts may occur throughout the year we will not take audit exception if before year end a final calculation to determine the receipts net of appropriate costs occurs. This may result in a transfer from the auditors ineligible deduction fund to the county general fund if the net receipts for the year exceed \$100,000. (The County Bulletin and Uniform Compliance Guidelines, January 2014)

### **RECEIPT ISSUANCE - TAX SALE DEPARTMENT**

A \$500 registration fee was charged in order to participate in Commissioner's Tax Sales. At the time of collection, the County did not issue a prenumbered receipt nor were the collections receipted into the funds ledger. If the registrar purchased a property at the tax sale, the registration fee was applied toward the bid amount owed and not receipted until after the sale. If a registrar did not purchase a property, the \$500 was refunded to the registrar.

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for County Auditors of Indiana, Chapter 1)

COUNTY AUDITOR  
LAKE COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on September 11, 2018, with John Petalas, County Auditor; Jane Dudley, Chief Deputy County Auditor; Michael T. Wieser, County Auditor's Director of Finance; and Ajaz Mohammed, Budget Liaison Director.

The contents of this report were discussed on September 11, 2018, with Kyle W. Allen, Sr., President of the Board of County Commissioners; Michael C. Repay, County Commissioner; John Dull, County Attorney; and Matt Fech, Assistant County Attorney.

COUNTY TREASURER  
LAKE COUNTY

COUNTY TREASURER  
LAKE COUNTY  
FEDERAL FINDING

***FINDING 2017-001***

Subject: Treasurer's Daily Balance of Cash and Depositories and Auditor's Funds Ledger  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-002.

*Condition*

The County Treasurer's office maintained the Treasurer's Daily Balance of Cash and Depositories (Cash Book). The Cash Book reflected 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. The County Treasurer's office did not have an effective system of controls in place designed to prevent, or detect and correct, errors associated with the cash reconciliation.

As part of the monthly reconciliation process, the County Auditor's office compared the County Auditor's funds ledger balance to the County Treasurer's calculated Funds Ledger line per the Cash Book. Effective procedures had not been established to ensure that reconciling items between the County Auditor's and County Treasurer's offices were corrected timely. Variances between the County Auditor and County Treasurer's records dated back to 2011 remained unresolved as of July 2018.

*Context*

This was a systemic issue throughout the audit period.

*Criteria*

The Indiana 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.

COUNTY TREASURER  
LAKE COUNTY  
FEDERAL FINDING  
(Continued)

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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities. . . .

- Accurate and timely recording of transactions. . . ."

*Cause*

Management of the County had not established an effective system of internal controls.

*Effect*

The failure to establish effective controls could have enabled material misstatements or irregularities to remain undetected.

*Recommendation*

We recommended that the County Auditor's and Treasurer's offices work together to resolve the variance in the County Treasurer's Cash Book "Funds Ledger - Cash" and establish an effective system of controls to prevent, or detect and correct, future errors.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



*Treasurer Lake County*

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



CORRECTIVE ACTION PLAN

**FINDING 2017-001**

Contact Person Responsible for Corrective Action: Peggy Holinga Katona  
Contact Phone Number: 219-755-3769

Description of Corrective Action Plan:

Our Corrective Action Plan is that the Treasurer's Bookkeeping Dept. will email the Auditor's Finance Dept. to remind them that they **MUST** submit the Settlement Quietus' to us so that we will make sure they are in balance with our cash. At that point, we will give them permission to print the Settlement checks. We have used this procedure for many decades and it was 100% perfect until the Auditor's Finance Dept. omitted the Treasurer's Bookkeeping Dept. in balancing out Settlement monies for 2011.

A handwritten signature in black ink, reading "Peggy Holinga Katona", written over a horizontal line.

\_\_\_\_\_  
Lake County Treasurer

\_\_\_\_\_  
September 11, 2018

COUNTY TREASURER  
LAKE COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on September 11, 2018, with Peggy Holinga Katona, County Treasurer; Larry Cak, Chief Deputy County Treasurer; and Priscilla Kirrin, Bookkeeping Supervisor.

The contents of this report were discussed on September 11, 2018, with John Petalas, County Auditor; Kyle W. Allen, Sr., President of the Board of County Commissioners; Michael C. Repay, County Commissioner; Jane Dudley, Chief Deputy County Auditor; Michael T. Wieser, County Auditor's Director of Finance; Ajaz Mohammed, Budget Liaison Director; John Dull, County Attorney; and Matt Fech, Assistant County Attorney.

(This page intentionally left blank.)

CLERK OF THE CIRCUIT COURT  
LAKE COUNTY

CLERK OF THE CIRCUIT COURT  
LAKE COUNTY  
FEDERAL FINDING

***FINDING 2017-002***

Subject: Financial Transactions and Reporting  
Audit Finding: Material Weakness

*Repeat Finding*

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2016-003.

*Condition*

Internal controls over disbursing, recording, and accounting for the financial activities of the Clerk of the Circuit Court were insufficient. There were several deficiencies in the internal control system of the Clerk of the Circuit Court's office related to financial transactions and reporting that constituted material weaknesses:

1. **Lack of Segregation of Duties:** The Clerk of the Circuit Court's office had not separated incompatible activities related to disbursements and cash and investment balances.

The Clerk of the Circuit Court's office had multiple offices and divisions. The divisions generally had a Division Manager, a bookkeeper, and clerks. Monthly, the Division Manager's prepared bank reconciliations were sent to the main (Crown Point) Clerk of the Circuit Court's office. No documented review of the bank reconciliations were performed. The checks were prepared, posted, signed, and mailed by one individual without an oversight or review process.

2. **Monitoring of Controls:** The Clerk of the Circuit Court had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting would have required the Clerk of the Circuit Court to monitor and assess the quality of the system of internal control.
3. **Preparing Financial Statement:** Effective internal control over financial reporting would have involved the identification and analysis of the risks of material misstatement to the County's audited financial statement and a determination of how those identified risks should be managed.

The Clerk of the Circuit Court did not have adequate internal controls over financial reporting to facilitate the preparation of accurate and complete financial reports to be included in the County's Annual Financial Report (AFR) and financial statement. The Clerk fund included in the financial statement included all receipts and disbursements of the Clerk of the Circuit Court's office, cash balances due to other governmental entities, and items held in trust for others.

One individual was responsible for the collection and calculation of the total receipts, disbursements, and balances from the Clerk of the Circuit Court's multiple offices and divisions. A proper system of oversight or review was not in place to ensure the financial information gathered was accurate and supported by the Clerk of the Circuit Court's records.

CLERK OF THE CIRCUIT COURT  
LAKE COUNTY  
FEDERAL FINDING  
(Continued)

*Context*

The lack of internal controls over financial transactions and reporting for the Clerk of the Circuit Court was a systemic problem throughout the audit period.

*Criteria*

The Indiana 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. . . ."

*Cause*

Management of the Clerk of the Circuit Court had not established a proper system of internal control. Management also had not conducted a risk assessment related to the Clerk of the Circuit Court's financial transactions and reporting.

*Effect*

The failure to establish controls could have enabled misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the Clerk of the Circuit Court at risk that controls may not have been either designed properly or operating effectively to provide reasonable assurance that controls would have prevented, or detected and corrected, material misstatements in a timely manner.

*Recommendation*

We recommended that the Clerk of the Circuit Court establish a system of internal controls related to financial transactions and reporting.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



**MICHAEL A. BROWN**  
CLERK LAKE CIRCUIT/SUPERIOR COURT  
2293 NORTH MAIN STREET  
CROWN POINT, INDIANA 46307

PHONE: (219) 755-3460

FAX: (219) 755-3520



**CORRECTIVE ACTION PLAN**

August 30, 2018

FINDING 2017-002

Contact Person Responsible for Corrective Action: Rebecca Dowling

Contact Phone Number: 219-755-3067

Views of Responsible Official: We concur with the finding.

The corrective plan for the Lack of Segregation of Duties has been addressed and these controls were put into place in late 2014. We have necessary documentation when the segregation of duties is not feasible due to the staff's situation. We will continue to identify and correct all areas where control is lacking.

We will have a process in place for monitoring and reviewing all financial reports that are prepared in the Clerk's Office.

We will continue to monitor and enforce that these procedures are followed daily per the State Board of Accounts manual.

The corrective plan for the Preparing Financial Statement (Annual Carr/ Supplemental Report) will be to monitor that the correct dollar amounts are reported by the County Auditor in the Gateway program. This will also include a review documentation. We will have an open line of communication with the Auditors Department on the checks and balances of this report.

Anticipated Completion Date: August 30, 2018

Sincerely,

  
Michael A. Brown *RS*

CLERK OF THE CIRCUIT COURT  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS

***BANK ACCOUNT RECONCILIATIONS***

The same comment also appeared in eleven prior Reports, including the three most recent Reports B47573, B47575, and B49219.

The Clerk of the Circuit Court's offices (located throughout the County) used Court View (a cash management and financial software program) for many years. All financial transactions were processed through Court View which was considered the official records of the Clerk of the Circuit Court. However, only five of the Clerk of the Circuit Court's eight divisions reconciled their adjusted bank balances to Court View's Account Balance Listing (ABL) cash balance. Other divisions reconciled to a manual ledger or an excel spreadsheet (a commercially prepared software program), instead of the ABL. The three divisions that maintained a manual ledger or excel spreadsheet used the transaction activity obtained from Court View.

According to the personnel responsible for reconciling, the differences between the adjusted bank balance and the record balance were related to payments made by credit cards. There were timing differences between the credit card payments recorded in the accounting system and the deposits to the bank. Many differences on the bank reconcilements have been included as reconciling items for years without any effort to identify the cause and determine the proper method to correct the records. In addition, the Clerk of the Circuit Court's ABL included various bond and trust control accounts that should have been supported by an "Open Items Case Listing" report. The "Open Items Case Listing" report detailed the amount held by the Clerk of the Circuit Court by case. The total of the "Open Items Case Listing" report should have agreed to the control amount in the ABL.

There were the following additional deficiencies at the various Clerk of the Circuit Court's divisions described as follows:

***Crown Point Civil***

A manual Cash Book/Ledger (County Form 46) was maintained and used to reconcile to the adjusted bank balance instead of the ABL which was the official record. As of December 31, 2017, the reconciled bank balance was \$7,434 in excess of the manual Cash Book balance. No attempt was made to research this variance, due in part to the issues in reconciling credit card transactions. In addition, the ABL was \$106,529 greater than the manual Cash Book/Ledger (County Form 46).

***Crown Point Small Claims***

The detail of items held in trust "Open Items Case Listing" at December 31, 2017, was \$1,541 less than the ABL, which was the official record. No attempt was made to research this difference.

***Crown Point Traffic***

An Excel (commercially purchased software) spreadsheet was maintained and used to reconcile to the adjusted bank balance instead of the ABL which was the official record. This spreadsheet was prepared by the Traffic Division Bookkeeper from daily receipts and disbursements generated by Court View and from the related bank activity (deposits, credits, and withdrawals). As of December 31, 2017, the adjusted bank balance (and the Excel spreadsheet) was \$74,646 less than the ledger balance (ABL) after adjusting for the investments. The difference between the ABL and the unit's spreadsheet plus the investment balance was \$79,660 at December 31, 2016. No attempt was made to research this difference.

CLERK OF THE CIRCUIT COURT  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

***East Chicago***

The reconciled bank balance for the East Chicago Clerk of the Circuit Court's office exceeded the ABL by \$100,904, as of December 31, 2017. Incorrect recording of an investment from "total monies on deposit" in 2009 accounted for \$100,000 of the difference. The remaining \$904 was not identified and was an accumulation of many years of uncorrected errors. Also, included in the reconciliation was a net adjustment amount of \$1,983. Virtually all of these adjustments were due to credit card transactions in the bank but not recorded in the records, or vice versa. The adjustments included transactions from 2011 to 2017 which were carried on the monthly bank reconciliations and were not resolved or posted to the records.

***Gary***

A manual Cash Book/Ledger (County Form 46) was maintained and used to reconcile to the adjusted bank balance instead of the ABL which was the official record. As of December 31, 2017, the reconciled bank balance was \$1,100 less than the manual Cash Book balance. This was a decrease of \$4,393 from December 31, 2016. The manual Cash Book balance was \$164,293 greater than the ABL, as of December 31, 2017. No attempt was made to research the difference. In addition, the detail of items held in trust "Open Items Case Listing" at December 31, 2017, was \$34,297 more than the ABL (Control).

***Hammond***

The Clerk of the Circuit Court's office in Hammond included three divisions: Civil, Small Claims, and Traffic. The bank reconciliations of the three divisions included reconciling items that have existed for a number of years. These reconciling items could not be verified to supporting documentation as no detailed listing of the composition of the reconciling items was maintained. The Hammond office performed reconciliations to the ABLs for each division; however, unidentified reconciling items with no documentation resulted in various cash shorts and longs.

The Small Claims Division's reconciled bank balance was \$2,149 less than the ABL; the Civil Division's reconciled bank balance was \$15,731 in excess of the ABL; and the Traffic reconciled bank balance was \$5,785 in excess of the ABL.

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."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 1)

***CREDIT CARD TRANSACTIONS - INTERNAL CONTROLS***

The same comment also appeared in five prior Reports, including the three most recent Reports B47573, B47575, and B49219.

CLERK OF THE CIRCUIT COURT  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

Internal controls over the receipting, disbursing, recording, and accounting for the financial activities were insufficient for the deposit and receipt of credit card payments in the Clerk of the Circuit Court's office. The Clerk of the Circuit Court's office allows customers to pay Court fees, traffic fines, and bonds over the internet by using credit cards. Customers inputted the cause number or ticket number and paid the amount owed. The third-party electronic payment software system should have automatically recorded the customer's payment information to the Clerk of the Circuit Court's Court View computerized recordkeeping system, and also deposited the amount into the bank account. The County's Data Department developed reports for the Clerk of the Circuit Court's Bookkeepers that detailed the credit card batches, cause numbers, transaction numbers, and payment amounts. A timing delay existed between the time the transaction was recorded in Court View and when the deposit was recorded in the bank account.

Review of the bank reconciliations through the year noted numerous instances of credit card transactions deposited into the bank but not recorded in Court View. Also, many instances of transactions recorded in Court View without a corresponding deposit into the bank accounts. These recording errors in the computerized accounting system by electronically generated transactions indicated weaknesses in the automated system.

When a customer overpaid or accidentally repeated the transaction on line, the Court View system could not record the overpayment or the duplicate transaction. The credit card bank deposit still occurred which made the transactions in the bank greater than the transactions in the Court View Cash Book. The credit card company occasionally reversed a payment or partial payment which made the bank deposit less than the amount recorded in Court View.

Manually reconciling the large volume of credit card transactions was a tedious and time consuming process, which lent itself to errors. The reports and information available to the Clerk of the Circuit Court's staff was insufficient to identify all differences related to credit card transactions.

The Clerk of the Circuit Court's office had not established policies or control procedures to refund overpayments. It depended primarily on the credit card company or the customer to adjust or to request refund of the overpayment. The Clerk of the Circuit Court's office had unidentified bank long amounts in several bank accounts which were believed to be due to the credit card issues described above.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 1)

The Indiana 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.

CLERK OF THE CIRCUIT COURT  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

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. . . ."

Processing controls are designed to provide reasonable assurance that data processing has been performed as intended without any omission or double-counting. Many processing controls are the same as the input controls, particularly for online or real-time processing systems, but are used during the processing phases. These controls include run-to-run totals, control-total reports, and file and operator controls, such as external and internal labels, system logs of computer operations, and limit or reasonableness tests. Domains of processing controls include:

- 1) Automated file identification and validation.
- 2) Automated functionality and calculations.
- 3) Audit trails and overrides.
- 4) Data extraction, filtering, and reporting.
- 5) Interface balancing.
- 6) Automated functionality and aging.
- 7) Duplicate checks.

(Accounting and Uniform Compliance Guidelines Manual for Indiana Political Subdivisions - Information Technology, page 10)

**BOND FORFEITURES**

The same comment also appeared in six prior Reports, including the three most recent Reports B47573, B47575, and B49219.

Indiana Code required the Court to forfeit the bond of a defendant who fails to appear in Court. The amount of the forfeited bond shall be transferred to the state common school fund less any court fees retained by the Clerk of the Circuit Court or any amounts collected in satisfaction of a judgment. In Lake County, bonds were not forfeited; instead, warrants were issued for the defendant's arrest. If the defendant was arrested within five years, the bond was used to pay fines and fees, Court cost, and attorney fees. If the defendant was not arrested within five years, the bond was remitted to the state as unclaimed property where the defendant could potentially recover the bond amount.

The Hammond Traffic Division's open items case listing included 348 older cash bonds held in Trust by the Clerk of the Circuit Court's office at December 31, 2017. The cash bonds on hand, received between the years of 2002 to 2011 for criminal defendants, totaled \$194,441.

CLERK OF THE CIRCUIT COURT  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Code 35-33-8-7 states:

"(a) If a defendant:

- (1) was admitted to bail under section 3.2(a)(2) of this chapter; and
- (2) has failed to appear before the court as ordered; the court shall, except as provided in subsection (b) or section 8(b) of this chapter, declare the bond forfeited not earlier than one hundred twenty (120) days or more than three hundred sixty-five (365) days after the defendant's failure to appear and issue a warrant for the defendant's arrest.

(b) In a criminal case, if the court having jurisdiction over the criminal case receives written notice of a pending civil action or unsatisfied judgment against the criminal defendant arising out of the same transaction or occurrence forming the basis of the criminal case, funds deposited with the clerk of the court under section 3.2(a)(2) of this chapter may not be declared forfeited by the court, and the court shall order the deposited funds to be held by the clerk. If there is an entry of final judgment in favor of the plaintiff in the civil action, and if the deposit and the bond are subject to forfeiture, the criminal court shall order payment of all or any part of the deposit to the plaintiff in the action, as is necessary to satisfy the judgment. The court shall then order the remainder of the deposit, if any, and the bond forfeited.

(c) Any proceedings concerning the bond, or its forfeiture, judgment, or execution of judgment, shall be held in the court that admitted the defendant to bail.

(d) After a bond has been forfeited under subsection (a) or (b), the clerk shall mail notice of forfeiture to the defendant. In addition, unless the court finds that there was justification for the defendant's failure to appear, the court shall immediately enter judgment, without pleadings and without change of judge or change of venue, against the defendant for the amount of the bail bond, and the clerk shall record the judgment.

(e) If a bond is forfeited and the court has entered a judgment under subsection (d), the clerk shall transfer to the state common school fund:

- (1) any amount remaining on deposit with the court (less the fees retained by the clerk); and
- (2) any amount collected in satisfaction of the judgment.

(f) The clerk shall return a deposit, less the administrative fee, made under section 3.2(a)(2) of this chapter to the defendant, if the defendant appeared at trial and the other critical stages of the legal proceedings."



**MICHAEL A. BROWN**  
CLERK LAKE CIRCUIT/SUPERIOR COURT  
2293 NORTH MAIN STREET  
CROWN POINT, INDIANA 46307

PHONE: (219) 755-3460

FAX: (219) 755-3520



September 12<sup>th</sup> 2018

State Board of Accounts  
302 West Washington Street Room E418  
Indianapolis, IN 46204


OFFICIAL RESPONSE

Dear State Boards of Account,

The Lake County Clerk's Office has received a draft of the annual audit for the period January 1, 2017 through December 31, 2017. I am responding to specific documented audit results and findings as follows:

1. The Clerk's office has designed and put in place an internal control process that includes the lack of segregation in late 2014. We will continue to enforce and monitor that these procedures are followed daily to prevent or detect any incorrect information or recordings.
2. The preparation of the County's Annual Financial Report will be improved by double reviewing of financial reports used by each cash book. The proper reporting of the investment balances was corrected in 2013. We will have an open line of communication with the County Auditor to monitor that the correct figures that we submit are entered in the Gateway program.
3. The Clerk's office has and will continue to improve and work on the variances of each cash book bank account reconciliation that is due to past years inherited discrepancies and credit card issues. The conversion into the statewide Odyssey system starting May 21, 2018 mandated that the office go to one bank account. This will create an accurate reconcile. The credit card issue will now be handled in a more accurate process in Odyssey.
4. The Clerk's Office believes that it is the responsibility of the Judge to set the case for a bond forfeiture, and to order the Clerk to proceed with the forfeit process as stated in the IC code.

Sincerely,

  
Michael A Brown  
Lake County Clerk

CLERK OF THE CIRCUIT COURT  
LAKE COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on September 11, 2018, with Michael A. Brown, Clerk of the Circuit Court; Rebecca Dowling, Financial Manager; and Sylvia Brown, Chief Deputy Clerk of the Circuit Court.

The contents of this report were discussed on September 11, 2018, with John Petalas, County Auditor; Kyle W. Allen, Sr., President of the Board of County Commissioners; Michael C. Repay, County Commissioner; Jane Dudley, Chief Deputy County Auditor; Michael T. Wieser, County Auditor's Director of Finance; Ajaz Mohammed, Budget Liaison Director; John Dull, County Attorney; and Matt Fech, Assistant County Attorney.

(This page intentionally left blank.)

COUNTY SHERIFF  
LAKE COUNTY

COUNTY SHERIFF  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS

***INMATE TRUST RECORDS***

The same comment also appeared in eight prior reports, including the three most recent Reports B47573, B47575 and B49219.

The County Sherriff's Department did not maintain an accurate subsidiary ledger of individual inmate trust fund receipts, disbursements, and balances. The reconciled bank balance of the Inmate Trust fund agreed with the inmate trust control ledger, but the total of all subsidiary records did not agree with the trust control ledger. At December 31, 2017, the subsidiary records were \$294,860 less than the inmate trust control ledger.

Indiana Code 36-8-10-22 states:

- "(a) This section applies to any county that operates a county jail.
- (b) The sheriff shall hold in trust separately for each inmate any money received from that inmate or from another person on behalf of that inmate.
- (c) If the inmate or the inmate's legal guardian requests a disbursement from the inmate's trust fund, the sheriff may make a disbursement for the personal benefit of the inmate, including but not limited to a disbursement to the county jail commissary.
- (d) Upon discharge or release of an inmate from the county jail, the sheriff shall pay to that inmate or the inmate's legal guardian any balance remaining in the inmate's trust fund.
- (e) If an inmate is found guilty of intentionally destroying or losing county property after a hearing conducted under [IC 11-11-5-5](#), the sheriff may disburse from the inmate's trust fund or commissary account sums of money as reimbursement to the county for the inmate's intentional destruction or loss of county property, including but not limited to clothing, bedding, and other nondisposable items issued by the county to the inmate. Before disbursing money under this subsection, the sheriff shall adopt rules to administer this procedure.
- (f) The sheriff shall maintain a record of each trust fund's receipts and disbursements. The state board of accounts shall prescribe the form for this record."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

***FAILURE TO REPORT MISAPPROPRIATION OF FUNDS***

The Sheriff Civil Division failed to immediately report misappropriation (theft) of public funds to the Indiana State Board of Accounts (SBOA) as required by Indiana Code 5-11-1-27(l). A written notice of the theft was not sent to the SBOA. In April 2018, the Civil Division conducted an internal investigation of collections that were not deposited from June and July of 2017. They provided their internal investigative report dated May 2018 to the SBOA Field Examiners on site in June 2018.

COUNTY SHERIFF  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

The Sheriff Civil Division had four deposits dated between June 29, 2017, and July 14, 2017, which totaled \$7,761.24 that were never deposited in the bank. Due to poor internal controls, it could not be determined who was responsible for the receipts and related collections. At the time of the missing deposits, bank reconciliations were not performed timely nor was a proper system of oversight or review in place. Since the missing deposits were discovered, new internal control procedures have been designed and implemented in the Civil Division.

Indiana Code 5-11-1-27(l) states:

"A public officer who has actual knowledge of or reasonable cause to believe that there has been a misappropriation of public funds or assets of the public office, including:

- (1) information obtained as a result of a police report;
- (2) an internal audit finding; or
- (3) another source indicating that a misappropriation has occurred;

shall immediately send written notice of the misappropriation to the state board of accounts and the prosecuting attorney serving in the area governed by the political subdivision."

The Indiana 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. . . ."

### **CIVIL DIVISION SOFTWARE SYSTEM**

The Sheriff's Civil Division utilized software that incorrectly posted checks to the Cash Book in the wrong month. For example, checks that were dated January and June 2018 were posted back to the December 2017 Cash Book. In addition, the software system did not provide a beginning or ending Cash Book balance and deleted voided items instead of reversing the original entry.

COUNTY SHERIFF  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

The Indiana 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 publication, Uniform Internal Control Standards for Indiana Political Subdivisions. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. This includes control activities. According to this manual:

"Control activities are designed to support the completeness, accuracy, and validity of information processing by technology including the design of security management. Management evaluates changes to systems and updates control activities in response. For example,

Input Controls provide input edits and controls to assure that information entered into the system is accurate, that all appropriate information is entered into the system.

Output Controls are features that assure all accounting information is reported accurately and completely.

Internal Processing provides written verification procedures and actual verification results that Document, accurate calculating, summarizing, categorizing, and updating of accounting information on a periodic basis.

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 managements' 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.

# OSCAR MARTINEZ

## LAKE COUNTY SHERIFF

LAKE COUNTY, INDIANA

**September 17, 2018**

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

Re: 2017 Audit – Lake County Sheriff’s Department – Official Response

Dear Mr. Joyce,

On September 7, 2018, SBA field examiner Sarah Prybylla conducted an exit interview concerning the 2017 Audit of the Lake County Sheriff's Department (“LCSD”). During our meeting, Ms. Prybylla advised that any written response to the 2017 Audit was due ten (10) business days from the date of our meeting. Accordingly, the LCSD’s response to the 2017 Audit is as follows:

### **I. Inmate Trust Records.**

The difference between the inmate trust control ledger and the inmate trust subsidiary records has been an ongoing issue at the Sheriff’s Department. We have approached the software company multiple times to request their assistance in determining the source of the discrepancy between the active/inactive ledgers and the cash-on-hand report. After extensive research by staff, we believe the root of the issue dates back to before the new software system was put into service in 2009 by previous administrations.

The 2009 SBA Audit Results and Comments (p. 11, ¶1) referenced large payments being transferred from the trust bank account into the jail commissary bank account for telephone commissions that were not paid out for several years. Supporting documentation for calculation of the commissions earned was not provided and, per the 2009 report, the SBA was unable to determine if the proper amount was transferred.

# OSCAR MARTINEZ

## LAKE COUNTY SHERIFF

LAKE COUNTY, INDIANA

After a review of these accounts by an outside CPA firm, it was determined:

1. Inmates' funds are mailed to them upon their release. Therefore, no excess bank cash amounts would belong to the inmates unless explicitly listed as inactive. Outstanding checks are accounted for and aged checks are submitted to the Attorney General's Dept. of Unclaimed Property.

2. The only funds that would remain in excess of the inmate trust balances would be: commissions payable to the jail commissary bank account; commissary vendor liabilities; or other inmate liabilities that would be paid to current vendors.

Since records from the old system no longer exist, we have to depend on the information presently accessible. We've reviewed the current software's balance sheet and found several accounts that are inactive and some others that need to be defined. We are now in the process of investigating each separate line item to determine if it is viable.

After a full examination, the exact overage in the Trust Account will be established. The above reference to the 2009 audit shows precedent of practice for the treatment of unpaid commissions. Therefore, the differences between the active/inactive accounts and the liability accounts, and the inmate trust control ledger, are most likely additional communication and/or supply commissions that were not transferred to the commissary bank account.

Therefore, once an exact balance is determined, the SBA will be contacted to assist in the proper disbursement of the identified overage.

## **II. Failure to Report Misappropriation of Funds.**

The misappropriation, which occurred during the previous administration, was discovered by an outside CPA firm that was retained to implement oversight over the Civil Division. When the incident was discovered, an internal criminal investigation was initiated. However, the staff in the Civil Division failed to timely notify the SBA of the incident.

# OSCAR MARTINEZ

## LAKE COUNTY SHERIFF

LAKE COUNTY, INDIANA

A Sheriff's Directive is being prepared and training instituted, pursuant to I.C. 5-11-1-27(I), to alert all staff of the procedures required to properly and timely report any future misappropriation of public funds that may occur.

In addition, internal controls have already been implemented and improved in the Civil Division, as follows:

1. Physical security of the Civil Offices has been improved:
  - Keycards to unlock doors are limited to authorized personnel;
  - Video surveillance has been installed; and
  - Secure storage in a lock box has been implemented.
2. Job duties have been segregated and "checks and balances" have been implemented at every level of cash handling.
3. Oversight of accounts, via bank reconciliation, has been implemented by an external CPA firm.

### **III. Civil Division Software System.**

The software used by our Civil Division, *Automated Tax Warrant Systems* by Lieberman Technologies, is an SBA approved software system. However, we agree with field examiner that the Lieberman software has limitations and has caused some unintended consequences due to its limitations.

The software developer confirmed that its software is not capable of some of the functions and reports required by the Civil Division. Therefore, the LCSD is actively reviewing alternative software systems with the intent of procuring a new system that provides proven, capable and appropriate software solutions for the Civil Division, now and in the future.

Respectfully submitted,

  
Oscar Martinez, Jr.  
Sheriff of Lake County

COUNTY SHERIFF  
LAKE COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on September 6, 2018, with Oscar Martinez, Jr., County Sheriff; William Paterson, Chief of Police; Emiliano Perez, Chief of Staff - County Sheriff; Michael Zenk, County Jail Warden; Ronald Ladd, Commander Civil Division; Melanie Dillon, Supervisor Bookkeeping; John Gruszka, Commander; Peter Papageorgakis, County Clerk; Barbara Papageorgakis, County Clerk; John Kopack, Attorney for the County Sheriff; Donald J. Smith, CPA Consultant; and Michelle Dumbsky, Accounting Consultant.

The contents of this report were discussed on September 11, 2018, with John Petalas, County Auditor; Kyle W. Allen, Sr., President of the Board of County Commissioners; Michael C. Repay, County Commissioner; Jane Dudley, Chief Deputy County Auditor; Michael T. Wieser, County Auditor's Director of Finance; Ajaz Mohammed, Budget Liaison Director; John Dull, County Attorney; and Matt Fech, Assistant County Attorney.

COUNTY RECORDER  
LAKE COUNTY

COUNTY RECORDER  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS

***FEE AND CASH BOOK***

The same comment also appeared in 10 of the 11 prior reports, including the 3 most recent Reports B47573, B47575, and B49219.

The County Recorder did not use the prescribed County Recorder's Fee and Cash Book or an alternative form in lieu of the prescribed form.

The County Recorder's Fee and Cash Book (Cash Book) had a detail of receipts with cumulative monthly receipt balances by type of receipt. However, the Cash Book was not complete. The "Total Disbursements for Month to Date" and "Balance Carried Forward" columns were not used properly as required on the prescribed form. The Cash Book was maintained on a monthly basis. Each month began with a zero balance; however, the disbursement of the prior month's cash balance was not recorded in the Cash Book. The book also did not include the interest earned each month from the bank account. A control ledger (of receipts, disbursements and balances) and a check register (a listing of checks remitted to the County Auditor that included the check number, date, and amount) were also not maintained. Therefore, a complete record and audit trail of all financial activity was not maintained.

The Fee and Cash Book should be totaled and footed at the close of each day and the receipts verified with the cash drawer. The amount of such receipts should also agree with the deposit to be made on the following business day. At the close of each calendar month the receipts should be accumulated and monthly totals entered at the foot of each column. The monthly totals should agree with the depository balance at the close of the month, considering the deposit of any fees received on the last day of the month, and will represent the amount to be paid into the county treasury. (Accounting and Uniform Compliance Guidelines Manual for County Recorders of Indiana, Chapter 8)

The official records and forms required to be used by the county recorder fall in the following two categories:

- (a) Those prescribed by the State Board of Accounts and computerized records approved for use by the county.
- (b) Those prescribed by statute, where the wording of the record or form is specified in the statute or has been designed pursuant to statute.

(Accounting and Uniform Compliance Guidelines Manual for County Recorders of Indiana, Chapter 6)

***BANK ACCOUNT RECONCILIATIONS AND REMITTANCES***

The same comment also appeared in 9 of the 11 prior reports, including the 3 most recent Reports B47573, B47575, and B49219.

The County Recorder failed to perform monthly reconciliations of the Fee and Cash Book to the depository balance as required by Indiana Code. The Fee and Cash Book did not list cash balances enabling a reconciliation to be performed. Therefore, no safeguard was in place to ensure that all monies were timely and accurately remitted to the County. Due to these issues, there was an excess cash balance totaling \$58,260 that was not remitted to the County.

COUNTY RECORDER  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

In addition, six bank statements for the credit card payment bank account could not be located by the County Recorder's office and were not presented for audit.

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."

Indiana Code 36-2-7-10(b) states:

"The county recorder shall charge and collect the fees prescribed by this section for recording, filing, copying, and other services the recorder renders, and shall pay them into the county treasury at the end of each calendar month. The fees prescribed and collected under this section supersede all other recording fees required by law to be charged for services rendered by the county recorder."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for County Recorders of Indiana, Chapter 1)

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

**OVERDRAWN CASH BALANCE**

The same comment also appeared in prior Report B49219.

The Recorder's Incentive fund had a negative cash balance of \$125,017 on the County Auditor's funds ledger. This negative cash balance was combined with the Recorder's Records Perpetuation fund on the financial statement in the Financial Statement and Federal Single Audit Report of the County at December 31, 2017.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for County Recorders of Indiana, Chapter 1)

COUNTY RECORDER  
LAKE COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on September 11, 2018, with Michael B. Brown, County Recorder; Regina M. Pimentel, Chief Deputy; and Michael Belmonte, Administration.

The contents of this report were discussed on September 11, 2018, with John Petalas, County Auditor; Kyle W. Allen, Sr., President of the Board of County Commissioners; Michael C. Repay, County Commissioner; Jane Dudley, Chief Deputy County Auditor; Michael T. Wieser, County Auditor's Director of Finance; Ajaz Mohammed, Budget Liaison Director; John Dull, County Attorney; and Matt Fech, Assistant County Attorney.

COMMUNITY ECONOMIC DEVELOPMENT DEPARTMENT  
LAKE COUNTY

COMMUNITY ECONOMIC DEVELOPMENT DEPARTMENT  
LAKE COUNTY  
FEDERAL FINDING

***FINDING 2017-003***

Subject: HOME Investment Partnerships Program - Reporting  
Federal Agency: Department of Housing and Urban Development  
Federal Program: HOME Investment Partnerships Program  
CFDA Number: 14.239  
Federal Award Numbers and Years (or Other Identifying Numbers): M-13-UC-18-0207,  
M-14-UC-18-0207,  
M-15-UC-18-0207,  
M-16-UC-18-0207

Compliance Requirement: Reporting  
Audit Finding: Material Weakness

*Condition*

An effective internal control system was not in place at the County's Community Economic Development Department in order to ensure compliance with requirements related to the grant agreement and the Reporting compliance requirement.

The Department had not developed, nor documented, a system of internal controls for the HUD 60002, Section 3 Summary Report reporting requirements.

*Context*

The lack of controls was a systemic issue throughout the audit period, as there was not a proper system of oversight or review for the only required HUD 6002 report.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

2 CFR 200.303 states in part:

"The non-Federal entity must:

COMMUNITY ECONOMIC DEVELOPMENT DEPARTMENT  
LAKE COUNTY  
FEDERAL FINDING  
(Continued)

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

*Cause*

Management had not developed a system of internal controls to ensure compliance with the Reporting compliance requirement.

*Effect*

The failure to establish an effective internal control system placed the County at risk of noncompliance with the grant agreement and the Reporting compliance requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with the compliance requirement and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the County's management establish controls to ensure compliance and comply with the Reporting compliance requirement.

*Views of Responsible Officials*

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



**LAKE COUNTY  
COMMUNITY ECONOMIC DEVELOPMENT DEPARTMENT**

**2293 N. Main Street • Crown Point, In 46307**  
Tel. (219) 755-3225 • Fax (219) 736-5925  
www.lakecountyin.org

Executive Director  
Timothy A. Brown

August 30<sup>th</sup>, 2018

**Corrective Action Plan**

Finding: 2017-003

Fiscal year in which the finding initially occurred: 2017

Federal Agency: HUD

Contact Person Responsible for Corrective Action: Timothy A. Brown

Title of Contact Person: Executive Director

Phone Number: (219) 755-3225

Condition:

The Department (LCCEDD) had not developed nor documented a system of internal controls for the HUD 60002, Section 3 Summary Report reporting requirements.

Context:

The lack of controls was a systemic issues throughout the audit period as there was not a proper system of oversight or review for the only required HUD 60002 report.

Views of Responsible Official:

The department concurs with the finding, however, wishes to make the following statement: The finding, on its face, is correct, but due solely of the inadequacy of the HUD required SPEARS computer program.

Corrective Action Plan:

The HUD 60002, Section 3 Summary Report is required to be inputted into the HUD SPEARS provided computer program once per year. The Program does NOT allow any format to approve the information inputted nor does the program allow for the typical printout of information inputted.

The Department (LCCEDD) will institute for the next annual report in the Fall of 2018 a process to print-screen each page once inputted to retrieve data so that a signature page can be created to review and sign off on the report.

A handwritten signature in black ink, appearing to read "Timothy A. Brown", written over a horizontal line.

Timothy A. Brown  
Executive Director

COMMUNITY ECONOMIC DEVELOPMENT DEPARTMENT  
LAKE COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on September 4, 2018, with Timothy Brown, Executive Director of Community Economic Development.

The contents of this report were discussed on September 11, 2018, with John Petalas, County Auditor; Kyle W. Allen, Sr., President of the Board of County Commissioners; Michael C. Repay, County Commissioner; Jane Dudley, Chief Deputy County Auditor; Michael T. Wieser, County Auditor's Director of Finance; Ajaz Mohammed, Budget Liaison Director; John Dull, County Attorney; and Matt Fech, Assistant County Attorney.

(This page intentionally left blank.)

BOARD OF COUNTY COMMISSIONERS  
LAKE COUNTY

BOARD OF COUNTY COMMISSIONERS  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS

**ACCOUNTS PAYABLE VOUCHERS DEFICIENCIES**

The same comment also appeared in five prior reports, including the three most recent Reports B47573, B47575, and B49219.

In 2017, the County disbursed funds before approval by the Board of County Commissioners at a public meeting and the Accounts Payable Vouchers that support manual checks and EFTs (white claims) were not included on the official Accounts Payable Voucher Register or docket approved or ratified by the Board of County Commissioners at a public meeting. The County's codified ordinances did not include an ordinance authorizing the County Auditor to pay accounts payable vouchers prior to the Board of County Commissioner's approval.

In response to the comment in the prior reports, on February 14, 2017, the County Council adopted Ordinance 1405C which addressed prepayments of EFTs and other disbursements. After Ordinance 1405C was adopted, Accounts Payable Vouchers for prepaid items did contain two Commissioners' signatures before the disbursement was made and ratified at the next Board of County Commissioners' meeting. However, Ordinance 1405C did not address specific type of expenses that can be prepaid in accordance with Indiana Code.

Then on September 13, 2017, the County adopted Ordinance 1412C, which addressed the specific types of expenses that can be prepaid in accordance with Indiana Code. In addition, the Board of County Commissioners approved a blanket ratification of prepaid claims as documented in the Board of County Commissioners' minutes. The Commissioners received listings for part of 2017 in the Board of County Commissioners' meeting agenda packet of those prepaid claims previously signed by two Commissioners. The blanket ratification did not provide enough detail (dollar amount of total, docket number, and date) to follow through to the correct detailed listing of prepaid items. The detailed list of prepaid accounts payable vouchers was not signed by the Board of County Commissioners nor were prepaid accounts payable vouchers included in the official Accounts Payable Voucher Register or docket.

Indiana Code 5-11-10-1.6 states in part:

". . . (b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .

(5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

Indiana Code 5-11-10-2(e) states:

"Where under any law it is provided that each claim be allowed over the signatures of members of a governing body, or a claim docket or accounts payable voucher register be prepared listing claims to be considered for allowance, the form and procedure prescribed in this section shall be in lieu of the provisions of the other law."

BOARD OF COUNTY COMMISSIONERS  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

Indiana Code 36-2-6-4 states in part:

". . . (b) Except as provided in section 4.5 of this chapter, the county executive may allow a claim or order the issuance of a county warrant for payment of a claim only at a regular or special meeting of the executive. The county auditor may issue a county warrant for payment of a claim against the county only if the executive or a court orders him to do so. . . .

(c) The county executive may allow a claim if the claim:

(1) complies with [IC 5-11-10-1.6](#); and

(2) is placed on the claim docket by the auditor at least five (5) days before the meeting at which the executive is to consider the claim. . . ."

Indiana Code 36-2-6-4.5 states:

"(a) A county executive may adopt an ordinance allowing money to be disbursed for lawful county purposes under this section.

(b) Notwithstanding [IC 5-11-10](#), with the prior written approval of the board having jurisdiction over the allowance of claims, the county auditor may make claim payments in advance of board allowance for the following kinds of expenses if the county executive has adopted an ordinance under subsection (a):

- (1) Property or services purchased or leased from the United States government, its agencies, or its political subdivisions.
- (2) License or permit fees.
- (3) Insurance premiums.
- (4) Utility payments or utility connection charges.
- (5) General grant programs where advance funding is not prohibited and the contracting party posts sufficient security to cover the amount advanced.
- (6) Grants of state funds authorized by statute.
- (7) Maintenance or service agreements.
- (8) Leases or rental agreements.
- (9) Bond or coupon payments.
- (10) Payroll.
- (11) State or federal taxes.
- (12) Expenses that must be paid because of emergency circumstances.
- (13) Expenses described in an ordinance.

BOARD OF COUNTY COMMISSIONERS  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

(c) Each payment of expenses under this section must be supported by a fully itemized invoice or bill and certification by the county auditor.

(d) The county executive or the county board having jurisdiction over the allowance of the claim shall review and allow the claim at its next regular or special meeting following the preapproved payment of the expense."

Prior to submission to the board of county commissioners, all claims or vouchers must be entered in claim number order in the Accounts Payable Register, General Form No. 364 (1996). This is a loose leaf form and contains columns to show the date each claim or voucher was filed, the claim or voucher number, the name of the claimant, the office, department or fund, the amount of the claim or voucher, the amount allowed and the warrant number. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 8)

**COMMISSIONER'S TAX SALE DISTRIBUTION**

The same comment also appeared in six prior reports, including the three most recent Reports B47573, B47575, and B49219.

Proceeds from the sale of tax certificates at the Commissioners' Tax Sale, were recorded in the Commissioner's Tax Certificate Sale fund. This fund was combined with the Tax Sale Fees - SRI, Inc. fund, and the Treasurer's Tax Sale fund and presented as the Tax Sale Fees fund on the financial statement.

The Commissioner's Tax Certificate Sale fund had a beginning balance of \$169,512, reported \$2,475,690 in receipts, and \$1,930,135 in disbursements, resulting in an ending balance of \$715,067. The fund received \$2,475,690 in receipts from two Commissioners Sales in 2017. Of those proceeds, no amount was applied to property taxes, special assessments, and penalties for the properties related to the tax certificates sold in 2017. Funds were disbursed for professional services, advertising, and other tax sale related expenses. In addition, \$526,267 was transferred from this fund to three incentive funds as an allocation of payroll costs attributed to the tax sale. The maximum amounts transferred were determined by Ordinance 1333A established in 2011 as the estimated cost of payroll for the Commissioners' Tax Sale. Direct costs of the tax sale may be paid from the proceeds from the sale; however, only the actual costs incurred may be reimbursed. The transfers, based upon direction received from the County Council during 2011, 2012, 2013, 2014, 2015, 2016, and 2017 were as follows:

Fund	2011	2012	2013	2014	2015	2016	2017
Auditor's Tax Incentive Fund	\$ 236,000	\$ 236,000	\$ 236,000	\$ 236,000	\$ 236,000	\$ 78,667	\$ 236,000
Comm Incentive Fund	250,000	300,000	250,000	350,000	300,000	65,104	50,267
Recorder's Incentive Fund **	100,000	100,000	100,000	100,000	100,000	-	-
Treasurer's Incentive Fund	240,000	240,000	240,000	240,000	240,000	80,000	240,000
Non-reverting Self Ins. Fund	-	-	-	500,000	250,000	-	-
Total Transfers received	<u>\$ 826,000</u>	<u>\$ 876,000</u>	<u>\$ 826,000</u>	<u>\$ 1,426,000</u>	<u>\$ 1,126,000</u>	<u>\$ 223,771</u>	<u>\$ 526,267</u>

\*\*Combined with and reported as Recorder's Record Perpetuation on the Financial Statement.

BOARD OF COUNTY COMMISSIONERS  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

The 2017 disbursements and December 31, 2017 cash balances of the incentive funds were as follows:

Fund	Disbursements	Cash Balance
Auditor's Tax Incentive	\$ 273,550	\$ (22,332)
Comm Incentive Fund	84,687	9,779
Treasurer's Incentive Fund	292,899	84,301
Totals	\$ 651,136	\$ 71,748

The ending balances in the incentive funds further support the determination that the transferred amounts exceeded the actual direct payroll costs incurred. The balance in the incentive funds at the end of 2017 was \$71,748.

Ordinance 1333A also states that 40 percent of the net proceeds, up to \$1,000,000, are to be deposited into the Commissioners' Tax Sale fund and only the net proceeds above the \$1,000,000 are to be distributed to the appropriate units of government where the respective tax certificate properties were located. Indiana Statute does not allow for this allocation; only direct costs, property taxes, special assessments, and penalties are to be paid. Any amount received in excess of those disbursements allowed by statute, should be deposited into the Tax Sale Surplus fund and not retained in the Tax Sale Fees fund. In addition, although not separately identified in the receipts from the Commissioners' Tax Sale, disbursements from the Commissioner's Tax Sale Certificate fund were made for the redemption of properties. Accounting for the redemption of properties should be in the Tax Sale Redemption fund.

Indiana Code 6-1.1-24-6.4 states in part:

"(a) When a certificate of sale is sold section 6.1 of this chapter, the purchaser at the sale shall immediately pay the amount of the bid to the county treasurer. The county treasurer shall apply the payment in the following manner:

- (1) First, to the taxes, special assessments, penalties, and costs described in section 5(e) of this chapter.
- (2) Second, to other delinquent property taxes in the manner provided in IC [6-1.1-23-5\(b\)](#).
- (3) Third, to a separate 'tax sale surplus fund.'

(b) For any tract or item of real property for which a tax sale certificate is sold under section 6.1 of this chapter, if taxes or special assessments, or both, become due on the tract or item of real property during the period of redemption specified under [IC 6-1.1-25-4](#), the county treasurer may pay the taxes or special assessments, or both on the tract or item of real property from the tax sale surplus held in the name of the taxpayer, if any, after the taxes or special assessments become due.

(c) The:

- (1) owner of record of the real property at the time the tax deed is issued who is divested of ownership by the issuance of a tax deed; or

BOARD OF COUNTY COMMISSIONERS  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

- (2) purchaser of the certificate or the purchaser's assignee, upon redemption of the tract or item of real property;

may file a verified claim for money that is deposited in the tax sale surplus fund. If the claim is approved by the county auditor and the county treasurer, the county auditor shall issue a warrant to the claimant for the amount due.

- (d) Unless the redemption period specified under [IC 6-1.1-25](#) has been extended under federal bankruptcy law, 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 (c) if it is claimed more than three (3) years after the date of its receipt. . . ."

All counties must implement the use of the new chart of accounts by January 1, 2012. (The County Bulletin and Uniform Compliance Guidelines, January 2011)

The deadline has been extended to January 1, 2013. (The County Bulletin and Uniform Compliance Guidelines, January 2012)



**OFFICE OF THE ATTORNEY  
TO THE BOARD OF COMMISSIONERS**

**John S. Dull**

LAKE COUNTY GOVERNMENT CENTER  
2293 NORTH MAIN STREET  
CROWN POINT, IN 46307  
PH.-219/755-3058 • FAX 219/755-3064



September 14, 2018

*Sent Via Facsimile (317) 232-4711*

Paul Joyce

State Examiner

State Board of Accounts

302 W. Washington, 4<sup>th</sup> Floor-Rm. 418

Indianapolis, IN 46402

RE – Response of Commissioners to 2017 Audit Findings

Dear Mr. Joyce:

The Board of Commissioners recently reviewed the 2017 Board of County Commissioners Audit Results and Comments Prepared by the State Board of Accounts Audit Team.

The response of the Lake County Board of Commissioners is as follows:

1. Accounts Payable Deficiencies

- a. The Board of Commissioners will not approve any claim or voucher that is not entered on Accounts Payable Register, General Form No. 374(1996).
- b. This Board policy will correct the deficiency noted.
- c. The Board will be in compliance with IC 5-11-10-1.6(d) since the County Council as the body with ordinance powers has enacted an ordinance permitting prepayment in accordance with IC 36-2-6-4.5(b)

the Board will not improve any of the authorized prepayments unless they are specifically listed on Accounts Payable Register, General Form No. 375(1996).

## 2. Commissioner's Tax Sale Distribution

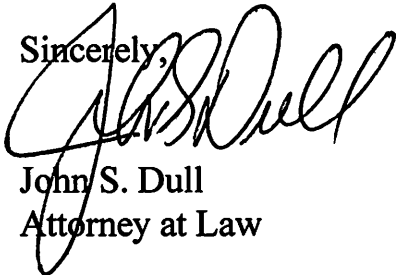
- a. Attached is a copy of IC 6-1.1-24-6.1 and IC 6-1.1-24-6.4.
- b. The State Board of Accounts audit comment takes no recognition of IC 6-1.1-24-6.1(a)(3)(b) which states that the county executive in selling a commissioner owned tax sale certificate must "Sell each certificate of sale covered by the resolution for a price that: (A) is less than the minimum sale prescribed by section 5 of this chapter, and (B) includes any costs to the county directly attributable to the sale of the certificate of sale".
- c. The price referred to in section 5 is the price for which the tax sale certificate must be sold at a minimum at the Treasurer's tax sale.
- d. The statute explicitly recognizes that the cost of the county are included in the sale price of a Commissioner tax sale certificate.
- e. To strictly apply at the outset the application of the proceeds as spelled out in IC 6-1.1-24-6.4 would mean that the cost of the county would be distributed as outlined in that section. Then there would be nothing available out of which to recoup the county's cost.
- f. The county procedure that will be followed by Lake County is as follows:
  - i. There will be no predetermined percentages or absolute amounts of money allocated to any office or department and deducted from the gross proceeds of the Commissioners tax certificate sale.
  - ii. The cycle for the Commissioners tax certificate sale begins immediately after the Treasurer sale closes which is usually in September and continues until the Treasurer opens its sale and properties are certified on July 1<sup>st</sup> of a given year.
  - iii. This means that the cycle for the Commissioners tax certificate sale covers approximately 10 months.
  - iv. During this 10 month period, various offices and departments in the county are involved in the Commissioner tax certificate sale program. Typically these departments are the Lake County

Commissioners as the county executive, the Lake County Auditor, the Lake County Treasurer and the Lake County Recorder.

- v. Each of these departments will have to document what is done by that department and in what quantity in preparation for and subsequent to the Commissioner tax certificate sales which are normally held in March and May of a given year.
- vi. Only those costs directly related to this sale can be reimbursed.
- vii. Each department and office will have to submit its reimbursement request with documentation to the Lake County Auditor who will determine the amount that is properly payable.
- viii. Adherence to this procedure will produce compliance with the provisions of IC 6-1.1-24-6.1 and 6.4.

The above constitutes the official response of the Lake County Commissioners to the State Board of Accounts comments on the 2017 audit.

Sincerely,



John S. Dull  
Attorney at Law

CC: Board of Commissioners  
Lake County Auditor

**ORDINANCE NO. 1412C**

**ORDINANCE ALLOWING FOR THE PRE-APPROVED  
PAYMENT OF CLAIMS FOR LAKE COUNTY, INDIANA**

**WHEREAS,** pursuant to I.C. 36-2-3.5-5, the County Council shall adopt ordinances to promote efficient County Government; and

**WHEREAS,** pursuant to I.C. 36-2-5-2(b), the County Council shall appropriate money to be paid out of the County Treasury, and money may be paid from the County Treasury only under appropriation made by the County Council, except as otherwise provided as law; and

**WHEREAS,** Lake County's fiscal officer, the Lake County Auditor, receives a wide variety of claims and other expenses which need to be paid prior to a regularly scheduled meeting of the Lake County Board of Commissioners at which time the Commissioners review and allow claims for payment; and

**WHEREAS,** the County is desirous of making payment on certain claims before a regularly scheduled meeting of the Lake County Board of Commissioners; and

**WHEREAS,** pursuant to I.C. 36-2-6-4.5 the County Council may adopt an ordinance allowing certain money to be disbursed for lawful County purposes, notwithstanding I.C. 5-11-10, so long as there is prior written approval by the Lake County Board of Commissioners, having jurisdiction over allowance of the claim.

**NOW, THEREFORE,** it is ordained by the Lake County Council, that the following Ordinance Allowing for the Pre-approved Payment of Claims for Lake County is adopted as follows:

**SECTION I. PRE-APPROVED CLAIMS.**

**1. Allowable Claims.**

Notwithstanding I.C. 5-11-10, with the prior written approval of the Lake County Board of Commissioners, having jurisdiction over the allowance of claims, the County Auditor may make claim payments in advance of Board allowance for the following kinds of expenses:

- A. Property or services purchased or leased from the United States Government, its agencies, or its political subdivision;**
- B. License or permit fees;**
- C. Insurance premiums;**
- D. Utility payments or utility connection charges;**
- E. General grant programs where advance funding is not prohibited and the contracting party posts sufficient security to cover the amount advanced;**

- F. Grants of State funds authorized by statute;
- G. Maintenance or service agreements;
- H. Leases or rental agreements;
- I. Bond or coupon payments;
- J. Payroll;
- K. State or federal taxes;
- L. Expenses that must be paid because of emergency circumstances;
- M. Expenses described in an Ordinance and duly adopted by the County Council; and

**2. Supporting Documentation.**

Each payment of expenses under this Ordinance must be supported by a fully itemized invoice or bill and certification by the County Auditor. The Auditor shall keep a record of the pre-approved payments, which shall be sent to the Board of Commissioners and County Council on a monthly basis.

**3. Board Review.**

The Lake County Board of Commissioners, having jurisdiction over the allowance of the claim, shall review and allow the claim at the Commissioner's next regular or special meeting following the pre-approved payment of the expense.

**SECTION II. EFFECTIVE DATE.**

This Ordinance shall become effective upon passage.

SO ORDAINED THIS 12th DAY OF September, 2017.



[Signature]  
TED F. BILSKI, President

[Signature]  
CHRISTINE CID

[Signature]  
DANIEL E. DERNULC

\_\_\_\_\_  
JAMAL WASHINGTON

PRESENTED TO  
BOARD OF COMMISSIONERS  
BY LAKE COUNTY AUDITOR  
SEP 13 2017 m/c

[Signature]  
ELSIE FRANKLIN

[Signature]  
ELDON STRONG

[Signature]  
DAVID HAMM

Members of the Lake County Council

BOARD OF COMMISSIONERS OF THE COUNTY OF LAKE

[Signature]

[Signature]

APPROVED THIS 20th DAY OF September 2017

**IC 6-1.1-24-6.1 Public sale by county executive of certificates of sale; notice**

Sec. 6.1. (a) The county executive may do the following:

(1) By resolution, identify properties concerning which the county executive desires to offer to the public the certificates of sale acquired by the county executive under section 6 of this chapter.

(2) Except as otherwise provided in subsection (c), in conformity with IC 5-3-1-4, publish:

(A) notice of the date, time, and place for a public sale; and

(B) a listing of parcels on which certificates will be offered by parcel number and minimum bid amount;

once each week for three (3) consecutive weeks, with the final advertisement being not less than thirty (30) days before the sale date. The expenses of the publication shall be paid out of the county general fund.

(3) Sell each certificate of sale covered by the resolution for a price that:

(A) is less than the minimum sale price prescribed by section 5 of this chapter; and

(B) includes any costs to the county directly attributable to the sale of the certificate of sale.

(b) Except as otherwise provided in subsection (c), notice of the list of properties prepared under subsection (a) and the date, time, and place for the public sale of the certificates of sale shall be published in accordance with IC 5-3-1. The notice must:

(1) include a description of the property by parcel number and common address;

(2) specify that the county executive will accept bids for the certificates of sale for the price referred to in subsection (a)(3);

(3) specify the minimum bid for each parcel;

(4) include a statement that a person redeeming each tract or item of real property after the sale of the certificate must pay:

(A) the amount of the minimum bid under section 5 of this chapter for which the tract or item of real property was last offered for sale;

(B) ten percent (10%) of the amount for which the certificate is sold;

(C) the attorney's fees and costs of giving notice under IC 6-1.1-25-4.5;

(D) the costs of a title search or of examining and updating the abstract of title for the tract or item of real property;

(E) all taxes and special assessments on the tract or item of real property paid by the purchaser after the sale of the certificate plus interest at the rate of ten percent (10%) per annum on the amount of taxes and special assessments paid by the purchaser on the redeemed property; and

(F) all costs of sale, advertising costs, and other expenses of the county directly attributable to the sale of certificates of sale; and

(5) include a statement that, if the certificate is sold for an amount more than the minimum bid under section 5 of this chapter for which the tract or item of real property was last offered for sale and the property is not redeemed, the owner of record of the tract or item of real property who is divested of ownership at the time the tax deed is issued may have a right to the tax sale surplus.

(c) For properties identified under subsection (a) for which the certificates of sale are not sold when initially offered for sale under this section, the county executive may omit from the notice the descriptions of the tracts or items of real property under subsection (b)(1) and the associated minimum bids under subsection (b)(3) if:

(1) the county executive includes in the notice a statement that descriptions of those tracts or items of real property are available on the Internet web site of the county government or the county government's contractor and the information may be obtained in an alternative form from the county executive upon request; and

(2) the descriptions of those tracts or items of real property for which a certificate of sale is eligible for sale under this section are made available on the Internet web site of the county government or the county government's contractor and may be obtained from the county executive in an alternative form upon request in accordance with section 3.4 of this chapter.

*As added by P.L.170-2003, SEC.3. Amended by P.L.169-2006, SEC.24; P.L.89-2007, SEC.6; P.L.73-2010, SEC.2; P.L.56-2012, SEC.6; P.L.203-2013, SEC.8; P.L.251-2015, SEC.10; P.L.187-2016, SEC.4; P.L.171-2018, SEC.6.*

#### **IC 6-1.1-24-6.4 Distribution of proceeds of sale of certificates of sale; tax sale surplus fund; county auditor duty on assignment of certificate**

Sec. 6.4. (a) When a certificate of sale is sold under section 6.1 of this chapter, the purchaser at the sale shall immediately pay the amount of the bid to the county treasurer. The county treasurer shall apply the payment in the following manner:

(1) First, to the taxes, special assessments, penalties, and costs described in section 5(e) of this chapter.

(2) Second, to other delinquent property taxes in the manner provided in IC 6-1.1-23-5(b).

(3) Third, to a separate "tax sale surplus fund".

(b) For any tract or item of real property for which a tax sale certificate is sold under section 6.1 of this chapter, if taxes or special assessments, or both, become due on the tract or item of real property during the period of redemption specified under IC 6-1.1-25-4, the county treasurer may pay the taxes or special assessments, or both, on the tract or item of real property from the tax sale surplus held in the name of the taxpayer, if any, after the taxes or special assessments become due.

(c) The:

(1) owner of record of the real property at the time the tax deed is issued who is divested of ownership by the issuance of a tax deed; or

(2) purchaser of the certificate or the purchaser's assignee, upon redemption of the tract or item of real property;

may file a verified claim for money that is deposited in the tax sale surplus fund. If the claim is approved by the county auditor and the county treasurer, the county auditor shall issue a warrant to the claimant for the amount due.

(d) Unless the redemption period specified under IC 6-1.1-25 has been extended under federal bankruptcy law, 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 (c) if it is claimed more than three (3) years after the date of its receipt.

(e) Upon the assignment of the certificate of sale to the purchaser, the county auditor shall indicate on the certificate the amount for which the certificate of sale was sold.

*As added by P.L.170-2003, SEC.5. Amended by P.L.56-2012, SEC.8; P.L.251-2015, SEC.13.*

BOARD OF COUNTY COMMISSIONERS  
LAKE COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on September 11, 2018, with Kyle W. Allen, Sr., President of the Board of County Commissioners; Michael C. Repay, County Commissioner; John Dull, County Attorney; and Matt Fech, Assistant County Attorney.

The contents of this report were discussed on September 11, 2018, with John Petalas, County Auditor; Jane Dudley, Chief Deputy County Auditor; Michael T. Wieser, County Auditor's Director of Finance; and Ajaz Mohammed, Budget Liaison Director.