

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF LAKE STATION

LAKE COUNTY, INDIANA

January 1, 2014 to December 31, 2017



FILED
01/23/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Brenda Samuels	01-01-14 to 12-31-15
	Joe Castellano	01-01-16 to 05-04-18
	(Vacant)	05-05-18 to 06-10-18
	Brenda Samuels	06-11-18 to 12-31-18
Mayor	Keith Soderquist	01-01-14 to 09-11-15
	John McDaniels	09-12-15 to 09-30-15
	Dewey Lemley	10-01-15 to 12-31-15
	Christopher Anderson	01-01-16 to 12-31-18
President of the Board of Public Works and Safety	Keith Soderquist	01-01-14 to 09-11-15
	John McDaniels	09-12-15 to 09-30-15
	Dewey Lemley	10-01-15 to 12-31-15
	Christopher Anderson	01-01-16 to 12-31-18
President Pro Tempore of the Common Council	Todd Rogers	01-01-14 to 12-31-14
	John McDaniel	01-01-15 to 12-31-15
	Esther Rocha-Baldazo	01-01-16 to 12-31-16
	Carlos Luna	01-01-17 to 12-31-17
	Ericka Castillo	01-01-18 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the City of Lake Station (City), for the period from January 1, 2014 to December 31, 2017. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statements Audit Report of the City, which provides our opinion on the City's financial statements. This report may be found at www.in.gov/sboa/.

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

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

December 17, 2018

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COMMON COUNCIL
CITY OF LAKE STATION

COMMON COUNCIL
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS

TRAINING ON INTERNAL CONTROL STANDARDS

Training on internal control standards was provided to some personnel. Upon review of the certifications provided, we identified personnel whose official duties included receiving, processing, and depositing of funds from the Water and Park Departments, and the Clerk-Treasurer's office that were not included. Upon further inquiry, the water department personnel stated that they were trained and signed a certification that was given to the trainer. However, the certifications were not provided for audit; thus, we could not verify that the training had been provided.

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

LOANS BETWEEN FUNDS

A similar comment also appeared in prior Reports B44993 and B44996, entitled *LOANS BETWEEN FUNDS*.

The following noncompliance with Indiana Code 36-1-8-4 was noted during the review of the temporary loans between funds:

1. The following temporary transfers (loans) were made between funds in each year of the audit period without approval of the Common Council:

Loan Date	FUNDS		Amount
	Loan To	Loan From	
2014	Water Utility Opera	General Fund	\$ 9,000
2014	Municipal Bond	General Fund	63,000
2015	Water Utility Opera	General Fund	8,000
2015	Water Utility Opera	Police Pension Fund	72,000
2015	Municipal Bond	Police Pension Fund	91,000
2015	Sanitary Dist -Bond	Sewage	53,100
2015	Sanitary Dist Operating	Sewage	18,900
2016	Municipal Bond	General Fund	100,000
2017	Municipal Bond	General Fund	122,778

2. The temporary transfers from the General Fund were not made in accordance with Indiana Code 36-1-8-4 since the General Fund did not have sufficient cash to lend.
3. As of December 31, 2017, the General Fund still owed the Municipal Bond fund \$222,778 for the 2016 and 2017 loans. The Common Council had not approved extensions as required by Indiana Code. On October 25, 2018, the General Fund repaid the full \$222,778 to the Municipal Bond fund.

COMMON COUNCIL
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

4. On November 5, 2015, the Common Council approved Resolution 2015-06 authorizing a \$337,000 temporary loan from the Park Const (2008 Bldg) fund to the General Fund. No repayments were made until in 2017 when the General Fund repaid \$90,000. As of December 31, 2017, the General Fund still owed the Park Const (2008 Bldg) fund \$247,000. The Common Council had not approved extensions as required by Indiana Code. On October 26, 2018, the General Fund repaid the full \$247,000 to the Park Const (2008 Bldg).
5. On November 5, 2015, the Common Council approved Resolution 2015-07 authorizing a \$300,000 temporary loan from the Municipal Bond fund to the General Fund. On January 4, 2016, the General Fund repaid \$322,000 to the Municipal Bond fund which resulted in an overpayment of \$22,000 to the Municipal Bond fund. On October 25, 2018, the Municipal Bond fund repaid the \$22,000 overpayment to the General Fund.

Indiana Code 36-1-8-4 states:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the fund that is in need of money for cash flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.
- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period.
- (5) Only revenues derived from the levying and collection of property taxes or special taxes or from operation of the political subdivision may be included in the amount transferred.

(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

COMMON COUNCIL
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

PREAPPROVED PAYMENTS OF CLAIMS

The same comment also appeared in the two prior Reports B44993 and B44996.

The Board of Public Works and Safety (Board) adopted Resolutions 2014-01, 2015-01, 2016-01, and 2017-01, which detailed what items may be paid by the Clerk-Treasurer prior to approval by the Board. The Clerk-Treasurer had relied upon these resolutions to make payments of claims prior to Board approval. Indiana statute, however, required an ordinance to be adopted by the Common Council to permit payment of claims prior to Board approval.

Indiana Code 36-4-8-14 states:

"(a) A city legislative body may adopt an ordinance allowing money to be disbursed for lawful city 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 city fiscal officer may make claim payments in advance of board allowance for the following kinds of expenses if the city legislative body 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, federal, or county 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 fiscal officer.

COMMON COUNCIL
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AUDIT RESULTS AND COMMENTS
(Continued)

(d) The city legislative body or the city board having jurisdiction over the allowance of the claim shall review and allow the claim at its next regular or special meeting following the pre-approved payment of the expense."

RIVERBOAT -INFRASTRUCTURE FUND TRANSFER

The same comment also appeared in prior Report B44996, entitled *SUBSEQUENT EVENTS - RIVERBOAT FUND TRANSFER*.

The Common Council approved Resolution 2016-20 on December 8, 2016. Based upon this resolution, the City transferred \$350,000 from the Riverboat -Infrastructure fund to the General Fund. The transfer to the General Fund did not comply with the City's Interlocal Agreement for use of the Riverboat -Infrastructure fund.

The City received Riverboat distributions from Lake County based upon an Interlocal cooperation agreement that the City agreed to in 1997. The Interlocal agreement states in part:

". . . 6. Uses of Money. The Municipalities agree to restrict the use of their share of the proceeds for the purposes of Infrastructure improvements. For the purpose of this Interlocal agreement, Infrastructure improvements shall include the following provisions as set forth in I.C. 8-14-1 et seq: . . ."

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

COURT FUNDS NOT PROPERLY ESTABLISHED

A similar comment also appeared in prior Reports B41763, B44993, and B44996, entitled *IMPROPER USE OF COURT FUNDS*.

The City established funds for the collection of various fees that should have been receipted into a City User Fee fund as per Indiana Code 33-37-8-3. Instead of the statutorily authorized fund, fees were instead receipted into the following funds:

- Alcohol Program Monitor (219)
- Deferral - OV (306)
- Users Fee-L.S. Cont (307)
- Deferral - Police (304)
- Deferral - IF (308)

Indiana Code 33-37-8-3 states:

"(a) A city or town user fee fund is established in each city or town having a city or town court for the purpose of supplementing the cost of various program services. The city or town fund is administered by the fiscal officer of the city or town.

COMMON COUNCIL
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AUDIT RESULTS AND COMMENTS
(Continued)

- (b) The city or town fund consists of the following fees collected by a clerk under this article:
- (1) The pretrial diversion program fee.
 - (2) The alcohol and drug services fee.
 - (3) The law enforcement continuing education program fee.
 - (4) The deferral program fee.
 - (5) The problem solving court fee."



1969 Central Ave. Lake Station, IN 46405

January 9, 2019

Paul D. Joyce, State Examiner
Indiana State Board of Accounts
302 W. Washington St., Rm. E418
Indianapolis, IN 46204-2769

Re: Lake Station Common Council's Response to Results and Comments In 2014-2017 Audit

Dear Mr. Joyce:

The following are the Common Council's responses to the comments concerning internal controls and repeat comments in the recently completed State Board of Accounts audit of the City of Lake Station for the years 2014, 2015, 2016, and 2017. It should be noted that all but one of the current Council members were elected in 2015 so they were not aware of the prior comments in the pre-2014 Reports. The Council has taken and is continuing to take appropriate action to address all of the comments in the current Audit Report, including those pertaining to the implementation of the Internal Control Policy adopted by Council Ordinance 2016-17 December 22, 2016. In the Ordinance, the Oversight Committee was established and delegated the responsibility to manage and monitor the implementation of the newly adopted Internal Control Policy. Although actions were taken by the Committee, documentation memorializing those actions is not available. The Council recently enacted its Resolution 2018-09 specifying additional steps that need to be taken by the Oversight Committee and management regarding implementation of the Internal Control Policy.

1. LOANS BETWEEN FUNDS

Since the Council did not receive notice of the transfers and was unaware that they occurred, the Council could not have intervened to prevent or approve them. However, upon recently being advised that such unapproved transfers had taken place, the Council has received assurances from the Clerk-Treasurer that an appropriate ordinance or resolution requesting approval of the transfer will be submitted to the Council for its approval. In addition, the Council will receive and monitor appropriation reports for the relevant Funds from the Clerk-Treasurer on a monthly basis.

2. PREAPPROVED PAYMENTS OF CLAIMS

The City had been operating for many years with the understanding that the Board of Works Resolution was sufficient and the Council was never alerted to the need for an ordinance. An appropriate Ordinance based on IC 36-4-8-14 has been introduced on first reading by the Council and will be adopted at its next meeting.

3. RIVERBOAT TRANSFER

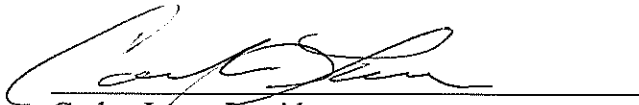
In order to avoid the use of funds for purposes other than those allowed by a grant or other applicable agreement, the Council will verify the existence of any restrictions on the use of those funds at the time it is notified by the Clerk-Treasurer that the restricted funds are available for spending. The Clerk-Treasurer has agreed to provide the Council such notice.

4. COURT FUNDS NOT PROPERLY ESTABLISHED

The Funds were established before the large majority of current Council members were elected in 2015. Steps are being taken by the Council to consolidate the Funds as required by IC 33-37-8-3.

Thank you for your acceptance of this response and if there are any questions, please contact Lake Station Clerk-Treasurer Brenda Samuels.

Respectfully submitted,



Carlos Luna, President
Lake Station Common Council

COMMON COUNCIL
CITY OF LAKE STATION
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2018, with Brenda Samuels, Clerk-Treasurer; Christopher Anderson, Mayor; Ericka Castillo, President Pro Tempore of the Common Council; Fred Williams, Common Council member; Carlos Luna, Common Council member; Esther Rocha-Baldazo, Common Council member; Jennifer Miller, Common Council member; James Meyer, Sanitary District Attorney; and Adrian Vera, Superintendent.

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CLERK-TREASURER
CITY OF LAKE STATION

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

A similar comment also appeared in prior Reports B44993 and B44995, entitled *FINDING 2012-001 and 2013-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING*.

There were deficiencies in the internal control system of the City related to financial transactions and reporting. The City had not separated incompatible activities related to cash and investments, receipts, disbursements (including payroll) and financial reporting.

In addition, the City did not have a process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the City to monitor and assess the quality of the system of internal control.

Cash and Investments

A documented oversight or review process was not in place over monthly bank reconciliations. Due to the lack of internal controls in place, errors occurred which were not timely detected and corrected. See also the Audit Result and Comment below entitled, *BANK ACCOUNT RECONCILIATIONS*.

Receipts

The employees in the Clerk-Treasurer's office recorded and reconciled the receipts without a documented oversight or approval process. Due to the lack of internal controls in place, posting errors of \$488,454 went undetected for local tax distributions as noted below:

Years	Fund Posted To	Correct Fund	Amount
2015	General Fund	Municipal Bond	\$ 2,706
2015	Park Bond -2008 Bldg Corp	Park GO	297
2015	Park GO	Park Bond -2008 Bldg Corp	207
2016	General Fund	Municipal Bond	217,849
2016	Park Bond -2008 Bldg Corp	Park GO	20,783
2017	Park Bond -2008 Bldg Corp	Park GO	156,154
2017	Park GO	Park Bond -2008 Bldg Corp	90,458

Furthermore, receipts for the Water SRF - Bond and Water SRF - Sink Reserve funds for 2016 and 2017 included posting errors. The Water SRF - Bond fund was understated by \$308,340 and the Water SRF - Sink Reserve fund receipts were overstated by \$33,938. In addition, the City's financial system allowed receipts to be back dated.

Vendor Disbursements

One employee prepared and recorded the accounts payable vouchers without evidence of proper system of oversight or review to ensure that vendor disbursements were accurately recorded in the proper funds. Due to the lack of internal controls in place, posting errors occurred and went undetected. In 2017, the Park GO fund (205) and Park Bond -2008 Bldg Corp fund (206) debt payments were posted to the incorrect fund as noted below:

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

Year	Fund Posted To	Correct Fund	Amount
2017	Park GO	Park Bond -2008 Bldg Corp	\$ 104,296
2017	Park Bond -2008 Bldg Corp	Park GO	130,500

Furthermore, disbursements for the Water SRF - Bond and Water SRF - Sink Bond Int funds for 2016 and 2017 included posting errors. The Water SRF - Bond fund disbursements were understated by \$373,348 and the Water SRF - Sink Bond Int fund disbursements were overstated by \$304,093.

Payroll Disbursements

One employee prepared and recorded the payroll disbursements without a documented oversight, review, or approval process.

Financial Reporting

The deputy Clerk-Treasurer prepared and submitted the Annual Financial Report (AFR) into the Gateway for Government Units financial reporting system, which was the source of the financial statements. There was no evidence of an oversight, review, or approval process to ensure that the information was accurate prior to submission.

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. . . .

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. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators.

CLERK-TREASURER
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AUDIT RESULTS AND COMMENTS
(Continued)

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

BANK ACCOUNT RECONCILIATIONS

After December 2015, monthly bank reconciliations were prepared by a consultant. The monthly reconciliations identified numerous posting errors; however, the errors noted were not timely corrected or labeled as unknown differences. For example, the December 2016 reconciliation for the City's general account had items noted that dated back to December 2015. In addition, detailed outstanding check lists were not provided for the December 2015 and 2016 bank reconciliations. Additional audit procedures were performed to determine the amounts.

During 2016, the City posted "adjustments" to the ledger with an explanation "to agree books with bank." However, no supporting documentation was provided to substantiate the receipts posting of \$767,559 or disbursement adjustments of \$708,273 posted. Due to the lack of supporting documentation, we could not substantiate the adjustments posted.

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."

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

OVERDRAWN CASH BALANCES

The same comment also appeared in seven prior reports, including the three most recent Reports B41776, B44993, and B44996.

The financial statement presented for audit included the following funds with overdrawn cash balances at December 31, 2014, 2015, 2016, and 2017:

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

Fund	Amount Overdrawn as of December 31,			
	2014	2015	2016	2017
General Fund	\$ 1,919,609	\$ 1,741,302	\$ 1,947,874	\$ 1,692,064
Refuse Department	33,482	34,633	-	-
Park and Recreation Fund	104,220	127,662	-	-
Municipal Bond	23,752	14,185	-	-
Alcohol Program Monitor	-	-	143	527
Pay - DD-NET	-	-	-	302
Pay - FED W/H	-	-	59,278	35,996
Pay - PERF	-	-	-	5,039
Water Utility Opera	72,069	-	-	145,985

As noted above, the General Fund was overdrawn by \$1,692,062 at December 31, 2017. It should also be noted that the City's General Fund cash balance has been consistently overdrawn at December 31 of each year since 2007 as follows:

Year Ended December 31	Ending Cash Balance
2017	\$ (1,692,064)
2016	(1,947,874)
2015	(1,741,302)
2014	(1,919,609)
2013	(2,017,131)
2012	(1,957,818)
2011	(1,683,903)
2010	(1,850,962)
2009	(1,995,148)
2008	(1,149,332)
2007	(548,698)

The General Fund's cash position at December 31, 2015, would have been a larger overdrawn balance except for the interfund loans it received from the Park Const (2008 Bldg) and Municipal Bond funds totaling \$637,000.

The Municipal Bond fund's cash position at December 31, 2016 and 2017, would have been overdrawn except for the interfund loans it received from the General Fund for \$100,000 and \$122,778, respectively, which were not repaid until 2018.

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 Cities and Towns, Chapter 1)

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

CUSTOMER METER DEPOSITS - WATER UTILITY

The same comment also appeared in five prior reports, including the three most recent Reports B41776, B44993, and B44996.

The Water Utility requires a customer meter deposit on all accounts. The meter deposits are to be recorded in the Water Deposits fund. A Guarantee Deposit Register was to be maintained for all meter deposits, less any refunds, by individual customer. The Guarantee Deposit Register should be reconciled monthly with the cash balance in the Water Deposits fund. However, this reconciliation was not performed.

Prior to 2011, all meter deposits were maintained in the Water Utility Opera fund. In 2011, the Water Utility created the Water Deposits fund. All meter deposits collected since 2011 were recorded in the Water Deposit fund; however, no fund transfers were made from the Water Utility Opera fund to account for collections prior to 2011. Thus, the combined cash balance of the Water Utility Opera and Water Deposits funds must be equal to, if not greater than, the balance of the Guarantee Deposit Register at any given time.

A detailed Guarantee Deposit Register as of December 31, 2017, had a balance of \$147,192. The Water Utility Opera and Water Deposits funds' cash balances at December 31, 2017, were only (\$145,985) and \$76,566, respectively. Refunds of customer deposits were paid from the Water Utility Opera fund.

The Water Deposit fund shared a bank account with the Water Utility Opera fund. Due to the overdrawn operating fund cash balance, customer deposits were used to fund operations.

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 Cities and Towns, Chapter 1)

WATER BOND ORDINANCE

A similar comment also appeared in prior Report B44996, entitled *FINANCIAL CONCERNS*.

The Common Council approved Ordinance 2012-20 on October 25, 2012, concerning the issuance of revenue bonds for the construction and improvements to the Water Utility of the City. Two sets of revenue bonds were issued for this project; one in December 2012, and the other in 2013. The City did not comply with Ordinance 2012-20, Section 10 regarding the treatment and use of income and revenues of the Waterworks. The financial consultant for the bond issue estimated in 2013 that the operating fund should have a balance of \$141,200 each month. None of the 48 months in the audit period met this requirement.

Ordinance 2012-20, Section 10, states in part: ". . . a sufficient amount of the revenues of the System so that the balance in the Operation and Maintenance Fund shall be sufficient to pay the expenses of operation, repair and maintenance of the System for the then next succeeding two (2) calendar months."

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

FUND SOURCES AND USES

The same comment also appeared in prior Reports B44993 and B44996.

The primary funds that paid for the various liability insurance coverage were General Fund, Motor Vehicle Highway, Local Road and Street (LRS), Refuse Department, Park and Recreation Fund, CEDIT, Stormwater MS4, Cumulative Capital Improv, LOIT Safety, Civic Center, Sewage, Sanitary Dist Operating, and Water Utility Opera. Supporting documentation as to how the insurance premium payments were allocated to the funds was not provided. The payment for liability insurance from the LRS fund did not comply with the statutory uses for the fund. The following table details how the insurance payments were allocated for 2014 through 2017.

Fund	Total Insurance Paid by Each Fund			
	2014	2015	2016	2017
General Fund	\$ 56,345	\$ 168,089	\$ 232,393	\$ 147,887
Motor Vehicle Highway	66,345	35,000	47,317	35,000
Local Road and Street	-	10,000	15,000	15,000
Refuse Department	-	3,000	32,138	14,976
Park and Recreation Fund	-	3,000	10,000	5,000
CEDIT	-	-	23,600	38,301
Stormwater MS4	92,788	62,000	54,859	78,114
Cumulative Capital Improv	-	-	20,000	-
LOIT Safety	-	26,946	-	-
Civic Center	-	-	-	5,000
Sewage	20,000	54,750	66,900	118,010
Sanitary Dist Operating	-	-	19,666	-
Water Utility Opera	-	5,000	38,000	45,977
Totals	\$ 235,478	\$ 367,785	\$ 559,873	\$ 503,265

Additionally, on January 4, 2016, \$177,892 was paid via an electronic funds transfer (EFT) but was not posted into the City's accounting software until June 30, 2016.

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 8-14-2-5 states:

"Money from the local road and street account shall be used exclusively by cities, towns, and counties for:

- (1) engineering, land acquisition, construction, resurfacing, maintenance, restoration, or rehabilitation of both local and arterial road and street systems;
- (2) the payment of principal and interest on bonds sold primarily to finance road, street, or thoroughfare projects;

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (3) any local costs required to undertake a recreational or reservoir road project under IC 8-23-5; or
- (4) the purchase, rental or repair of highway equipment."

It appears legislative intent is for local road and street account distributions to be used only for direct expenses incurred in the construction, reconstruction, or maintenance of arterial and local roads and streets in cities and towns. This would prohibit the use of such funds for building buildings or for such indirect costs as administrative salaries or supplies, goods, or materials not used directly for one of the aforementioned purposes. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2011)

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

RIVERBOAT -INFRASTRUCTURE FUND TRANSFER

The same comment also appeared in prior Report B44996, entitled *SUBSEQUENT EVENTS - RIVERBOARD FUND TRANSFER*.

Based on Resolution 2016-20, the City transferred \$350,000 from the Riverboat -Infrastructure fund to the General Fund. The transfer to the General Fund did not comply with the City's Interlocal Agreement for use of the Riverboat -Infrastructure fund.

The City received Riverboat distributions from Lake County based upon an Interlocal cooperation agreement that the City agreed to in 1997. The Interlocal agreement states in part:

". . . 6. Uses of Money. The Municipalities agree to restrict the use of their share of the proceeds for the purposes of Infrastructure improvements. For the purpose of this Interlocal agreement, Infrastructure improvements shall include the following provisions as set forth in I.C. 8-14-1 et seq: . . ."

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

LOANS BETWEEN FUNDS

A similar comment also appeared in prior Reports B44993 and B44996, entitled *LOANS BETWEEN FUNDS*.

The following noncompliance with Indiana Code 36-1-8-4 was noted during the review of the temporary loans between funds:

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CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

1. The following temporary transfers (loans) were made between funds in each year of the audit period without approval of the Common Council:

Loan Date	FUNDS		Amount
	Loan To	Loan From	
2014	Water Utility Opera	General Fund	\$ 9,000
2014	Municipal Bond	General Fund	63,000
2015	Water Utility Opera	General Fund	8,000
2015	Water Utility Opera	Police Pension Fund	72,000
2015	Municipal Bond	Police Pension Fund	91,000
2015	Sanitary Dist -Bond	Sewage	53,100
2015	Sanitary Dist Operating	Sewage	18,900
2016	Municipal Bond	General Fund	100,000
2017	Municipal Bond	General Fund	122,778

2. The temporary transfers from the General Fund were not made in accordance with Indiana Code 36-1-8-4 since the General Fund did not have sufficient cash to lend.
3. As of December 31, 2017, the General Fund still owed the Municipal Bond fund \$222,778 for the 2016 and 2017 loans. The Common Council had not approved extensions as required by Indiana Code. On October 25, 2018, the General Fund repaid the full \$222,778 to the Municipal Bond fund.
4. On November 5, 2015, the Common Council approved Resolution 2015-06 authorizing a \$337,000 temporary loan from the Park Const (2008 Bldg) fund to the General Fund. No repayments were made until in 2017 when the General Fund repaid \$90,000. As of December 31, 2017, the General Fund still owed the Park Const (2008 Bldg) fund \$247,000. The Common Council had not approved extensions as required by Indiana Code. On October 26, 2018, the General Fund repaid the full \$247,000 to the Park Const (2008 Bldg).
5. On November 5, 2015, the Common Council approved Resolution 2015-07 authorizing a \$300,000 temporary loan from the Municipal Bond fund to the General Fund. On January 4, 2016, the General Fund repaid \$322,000 to the Municipal Bond fund which resulted in an overpayment of \$22,000 to the Municipal Bond fund. On October 25, 2018, the Municipal Bond fund repaid the \$22,000 overpayment to the General Fund.

Indiana Code 36-1-8-4 states:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the fund that is in need of money for cash flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.

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CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
 - (4) The amount transferred must be returned to the other fund at the end of the prescribed period.
 - (5) Only revenues derived from the levying and collection of property taxes or special taxes or from operation of the political subdivision may be included in the amount transferred.
- (b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:
- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
 - (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

ERRORS ON CLAIMS

Debt Payments and Transfers

Of the one hundred and six Accounts Payable Vouchers (APV) tested for debt payments, the following deficiencies were noted:

1. Nineteen APVs from 2016 and 2017 were not presented for audit. Additional procedures were performed to substantiate the amounts disbursed.
2. Five of the APVs were not posted timely when compared to the date of the electronic funds transfer for 2016 and 2017.
3. Thirteen of the APVs from 2016 and 2017 were not paid timely, which resulted in \$1,953 of additional interest or late payment fees being paid.
4. Fifty-eight of the APVs were not identified on an Accounts Payable Voucher Register, which would have documented the certification by the fiscal officer and approval by the legislative body as required by Indiana Code.

Vendor and Payroll Disbursements

Of the sixty-four APVs tested for vendor and payroll disbursements, the following deficiencies were noted:

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CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

1. Two vendor APVs were not paid timely; one in 2014 and one in 2017.
2. Three vendor APV'S from 2016 and 2017 were not presented for audit.
3. Four vendor APVs from 2016 and 2017 did not have supporting documentation.
4. In 2016, twelve vendor APVs were included on an Accounts Payable Voucher Register but were not certified by the fiscal officer and eight were not approved by the legislative body.
5. Four payroll APVs in 2016 were approved by the appropriate department head and included on an Accounts Payable Voucher Register, but not approved by the fiscal officer.

In addition, of the sixty APVs tested for State Revolving Fund (SRF) disbursements, three in December 2015 were not approved by the legislative body.

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:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (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. . . ."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

PENALTIES, INTEREST, AND OTHER CHARGES

A similar comment also appeared in prior Report B44996, entitled *PENALTIES, INTEREST, AND OTHER CHARGES*.

The City incurred and paid penalties, interest, and collection fees on sales tax, utility receipts tax, and withholding payments to the Indiana Department of Revenue in 2016 and 2018.

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CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

Tax Type	Penalties, Interest, and Other Charges Incurred and Paid	
	2016	2018
Water Sales Tax	\$ 3,170	\$ 1,933
Water - Utility Receipts Tax (URT)	70	-
Indiana Withholdings	7,834	1,338
Park Sales Tax	40	55
Totals	<u>\$ 11,115</u>	<u>\$ 3,327</u>

Of the seventeen APVs tested from 2016 and 2017 related to sales tax payments, ten did not have sufficient supporting documentation for amounts paid to the Indiana Department of Revenue.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for examination to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

NONUSE OF PURCHASE ORDERS

The same comment also appeared in prior Reports B44993 and B44996.

The City did not utilize purchase orders to encumber/reserve appropriations when purchases were initiated. The lack of the use of purchase orders contributed to the City overspending both appropriations and cash for various funds.

Indiana Code 5-22-18-5(b) states in part:

"Within thirty (30) days after the acceptance of an offer, the purchasing agent shall deliver in person or by first class mail to the successful offeror the original of each purchase order or lease, retain a copy for the purchasing agent's records, and file a copy for public record and inspection as follows:

- (1) When a purchase or lease is made for a county or municipality, the copy of the purchase order or lease must be filed with the fiscal officer of the unit. . . ."

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

The purchase order (General Form No. 98) is used in conjunction with City and Town Form No. 209, Ledger of Appropriations, Encumbrances, Disbursements and Balances. Provision is made for certification of an unobligated balance being available in the appropriation from which purchase is to be made, in compliance with the law.

This will require the encumbering of appropriations for each order as it is issued.

It is necessary that all orders pass through the hands of the Clerk-Treasurer, who is responsible for appropriation accounting.

The original will be delivered to the vendor, the duplicate copy filed with the purchasing authority and the triplicate copy filed with the Clerk-Treasurer. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 6)

Officials and employees are required to use prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

UTILITY RECEIPTS TAX

The same comment also appeared in the three most recent Reports B41776, B44993, and B44996.

The Water Utility did not properly calculate the amount of Utility Receipts Tax to remit to the Indiana Department of Revenue for the calendar years 2016 and 2017. The Water Utility included an "unmetered" total which was calculated based upon a metered billing amount times the sales tax rate in their determination of total taxable receipts. These errors caused the Water Utility to overpay their Utility Receipt Tax for 2016 and 2017 by \$2,674 and \$3,306, respectively, for which a refund of the overpayment was not determined nor claimed.

Units must collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 6-2.3-3-4(a) states:

"Gross receipts do not include collections by a taxpayer of a tax, fee, or surcharge imposed by a state, a political subdivision, or the United States if:

- (1) the tax, fee, or surcharge is imposed solely on the sale at retail of utility services;
- (2) the tax, fee, or surcharge is remitted to the appropriate taxing authority; and
- (3) the taxpayer collects the tax, fee, or surcharge separately as an addition to the price of the utility service sold."

COURT FUNDS NOT PROPERLY ESTABLISHED

A similar comment also appeared in prior Reports B41763, B44993, and B44996, entitled *IMPROPER USE OF COURT FUNDS*.

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS
(Continued)

The City established funds for the collection of various fees that should have been receipted into a City User Fee fund as per Indiana Code 33-37-8-3. Instead of the statutorily authorized fund, fees were instead receipted into the following funds:

Alcohol Program Monitor (219)
Deferral - OV (306)
Users Fee-L.S. Cont (307)
Deferral - Police (304)
Deferral - IF (308)

Indiana Code 33-37-8-3 states:

"(a) A city or town user fee fund is established in each city or town having a city or town court for the purpose of supplementing the cost of various program services. The city or town fund is administered by the fiscal officer of the city or town.

(b) The city or town fund consists of the following fees collected by a clerk under this article:

- (1) The pretrial diversion program fee.
- (2) The alcohol and drug services fee.
- (3) The law enforcement continuing education program fee.
- (4) The deferral program fee.
- (5) The problem solving court fee."



1969 Central Ave. Lake Station, IN 46405

January 7, 2019

State Board of Accounts
302 West Washington Street, Room E418
Indianapolis, IN 46204-2765
idavid@sboa.in.gov

OFFICIAL RESPONSE FOR 2014-2017

**For the years 2016-2017 and through May 2018, I, Brenda Samuels, was not employed by the City and, therefore, the operations of the Clerk-Treasurer's Office were not observed by me nor within my control. Unfortunately, my predecessor is deceased and, therefore, unavailable as a source of information regarding the offices operations during that time period.

A) Training on Internal Control Standards

The City has established a set formal procedure for making sure all current employees have the preliminary training. In 2019, we are working on establishing appropriate protocols and procedures for each department that meets its needs.

B) Loans between funds

All prior interfund loans have been re-paid in 2018, and the proper steps to obtain Council approval as required by IC 36-1-8-4 will be taken going forward. The Council will be provided appropriation reports on a regular basis so they can verify no inappropriate transfers have been made.

C) Preapproved payments of Claims

An appropriate Ordinance has been prepared pursuant to IC 36-1-8-14 for the Council to approve, was introduced on first reading at the last Council meeting, and will be voted on at the next Council meeting.

D) Riverboat fund transfer

Management will only request expenditure of restricted funds, and the Clerk-Treasurer will verify that the expenditure of restricted funds are only expended, for purposes approved by the grant or other agreement governing the expenditure of the funds. Any applicable restriction on the use of funds will be reflected in the appropriation authorizing the expenditure of those funds.

E) Court funds not properly established

An Ordinance to combine all five Funds and their respective appropriations into one Fund, along with the transfer of the money from each Fund into that one Fund, is being prepared for Council approval in the beginning of 2019.

F) Internal Controls

In 2016 & 2017 many supervisory responsibilities appear to have been non-existent and along with inexperienced personnel. We have already trained the employees on proper internal control procedures regarding segregated responsibilities and timeliness for accurately creating and cross checking financial records as required by the *Uniform Internal Control Standards for Indiana*, implementing appropriate approval processes, and balancing bank accounts to the City's accounting system as required by IC 5-13-6-1. The City is aware of the heightened importance of having clear and accurate records which can be copied and stored digitally as provided for in IC 5-15-1-1. These practices and procedures, including appropriate training, will continue moving forward.

G) Bank account reconciliations

See answer to F, above. Again 2016 & 2017 deficiencies were due to inexperienced personnel who did not receive the appropriate training and supervision. We have already been researching back to December 2015 to date for errors above and beyond what State Board of Accounts has found. We will all reconciliations completed before closing the books for 2018 and will produce the reconciliations on a monthly basis as required by IC 5-13-6-1(e).

H) Financial concerns

1) Overdrawn cash balances

The overdrawn balance in the General Fund has been long standing and the City is working to reduce and, ultimately, eliminate that overdrawn balance as quickly as available funds will permit while the City continues to fund providing the services necessary to protect and support the health, safety, and welfare of its citizens. We have made many changes in the budget along with less spending to slowly lower this negative balance. All of the other overdrawn Fund balances have been eliminated prior to December 31, 2018.

2) Customer meter Deposits - Water Utility

When we did our own internal audit of the Water Utility in 2013, we knew there were mis-postings and planned to transfer the appropriate amount of funds from the Water Operating Fund to the Water Utility Deposit Fund when the Water Utility could afford to do so. In the 2 years I didn't work here, 2016 & 2017, this was not taken care of. We are currently working on another internal audit to capture the true and up to date accurate balance in the Deposit Fund, so that the appropriate transfers can be completed.

3) Water Bond Ordinance

Despite implementing all reasonably available cost saving measures, due to unanticipated substantial costs for repairing reoccurring waterline breaks and operating the City's new water plant, it has not been possible for the City to maintain the Ordinance-required cash balance in the Operating Fund. The City is in the process of selling all of the assets of its Water Utility which will eliminate this deficiency.

4) Fund Sources and Uses

We understand this appears to be an ongoing issue, and hope to work with the Mayor, Council and departments to determine the proper amount of appropriation in each fund to address the complex issue of allocating liability insurance costs to the various departments based on their respective operations

Also, all expenditures will be promptly and timely posted into the City's accounting software. Consistent with the Response to item D, above, Management will only request expenditure of restricted funds, and the Clerk-Treasurer will verify that the expenditure of restricted funds are only expended, for purposed approved by the statue governing the expenditure of the funds, including IC 8-14-1-5 for the Local Road and Street Fund.

5) Riverboat fund transfer

See Response to item D and the one immediately above regarding only expending restricted funds for purposes approved by the agreement.

I) Loans between funds

All temporary loans between funds have been re-paid. We will follow the proper procedures for obtaining the necessary Council approvals for the loans and the times for repayment, and comply with the terms of the Council's approval, as required by IC 36-1-8-4 going forward. The Council resolution or ordinance approving the temporary loan will recite the conditions approved in IC 36-1-8-4 for allowing the temporary loans. All such resolutions and ordinances will be forwarded to the State Board of Accounts and Department of Local Government Finance immediately after adoption by the Council.

J) Errors on claims

Again, in 2016 & 2017 this was not within my control, and I see that very little, if any, supervision and/or instruction was given to City personnel. We have already trained current Clerk-Treasurer office personnel to make sure compliance with all required procedures have been followed and required documentation thereof as required by IC 5-11-10-1.6(b), as well as that required by the City's Internal Control Policy, have been provided and are up to the applicable standards.

K) Penalties, interest, and other charges

All penalties, interest, and collection fees that we have identified for 2016 through May of 2018, are being addressed with the Indiana Department of Revenue in an attempt to obtain forgiveness and credit for the penalties, interests, and collection fees that were paid and any overpayments that were made.

L) Nonuse of purchase orders

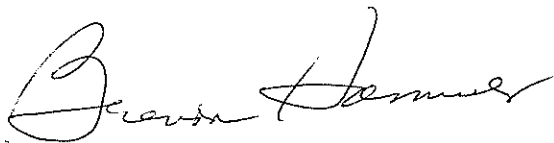
The city did attempt implementing and using Purchase Orders, but due to lack of using them properly by management, the purpose was defeated and therefore, their use was discontinued. We are working with the Mayor and current management in an attempt to implement the Purchase Order process and state approved forms as required by IC 5-22-18-5(b) going forward.

M) Utility Receipt Tax

We have addressed receiving credits for the overpayments with the IDOR. The Water Utility personnel are currently checking with their software company to see if they can get the correct report from which appropriate payment amounts can be calculated, so that future payments will be for the correct amount in compliance with IC 6-2.3-3-4(a).

N) Court funds not properly established

An Ordinance to combine all five Funds and their respective appropriations into one Fund, along with the transfer of the money from each Fund into that one Fund, is being prepared for Council approval in the beginning of 2019.



Clerk Treasurer, Brenda Samuels



Mayor, Christopher Anderson

CLERK-TREASURER
CITY OF LAKE STATION
EXIT CONFERENCE

The contents of this report were discussed on December 17, 2018, with Brenda Samuels, Clerk-Treasurer; Christopher Anderson, Mayor; Ericka Castillo, President Pro Tempore of the Common Council; Fred Williams, Common Council member; Carlos Luna, Common Council member; Esther Rocha-Baldazo, Common Council member; Jennifer Miller, Common Council member; James Meyer, Sanitary District Attorney; and Adrian Vera, Superintendent.

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CITY COURT
CITY OF LAKE STATION

CITY COURT
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

A similar comment also appeared in six prior reports, including the three most recent Reports B41754, B44994, and B44996, entitled *BANK ACCOUNT RECONCILIATIONS*.

Internal controls over the City Court's reconciliation of bank balances to fund ledger balances were not sufficient.

City Court personnel had not reconciled the City Court Cash Book to the depository balance since September 2007. A cursory review of bank statements and ledger balances for the four year audit period noted that the bank balance exceeded the ledger balance at December 31, 2014, by \$23,247; at December 31, 2015, by \$29,127; at December 31, 2016, by \$37,696; and at December 31, 2017, by \$14,276.

A cursory review means that the bank balance was compared to the ledger balance, only taking into account the outstanding checks from a listing generated from the City Court's computer system. The outstanding check lists were not verified as accurate. No other adjustments, such as returned checks for insufficient funds, bank fees, or posting errors and omissions, were taken into account.

However, we did identify errors in the December 2017 outstanding check list provided that we did consider when performing the cursory review. Of the checks listed as outstanding at December 31, 2017, 20 were listed as outstanding that had actually cleared the bank in December 2017. In addition, we identified a check written in September 2017 that cleared the bank in December 2017 that was not on the outstanding check list for November 2017.

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 should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Town Courts, Chapter 4)

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. . . ."

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

CRIMINAL BONDS OVER FIVE YEARS OLD

A similar comment also appeared in the two prior Reports B44994 and B44996, entitled *CRIMINAL BONDS OVER FIVE YEARS OLD*.

Our review of criminal bonds on hand determined that \$56,635 of bonds had been on hand for a period of five years or longer. The City Court had not implemented policies and procedures for reporting unclaimed property and remitting that property to the Attorney General after the five year holding period.

If a bond is forfeited and the court has entered a judgment, 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.

The amount transferred to the State Common School Fund shall be sent to the county auditor on a monthly basis as Bond Forfeitures. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 3)

Indiana Code 32-34-1-20(c) states in part:

"Property that is held, issued, or owed in the ordinary course of a holder's business is presumed abandoned if the owner or apparent owner has not communicated in writing with the holder concerning the property or has not otherwise given an indication of interest in the property during the following times: . . .

- (6) For property or proceeds held by a court or a court clerk, five (5) years after the property or proceeds become distributable. The property or proceeds must be treated as unclaimed property under IC 32-34-3. . . ."

Indiana Code 32-34-1-26(a) states: "A holder of property that is presumed abandoned and that is subject to custody as unclaimed property under this chapter shall report in writing to the attorney general concerning the property. Items of value of less than fifty dollars (\$50) may be reported by the holder in the aggregate."

Indiana Code 32-34-1-27(a) states: "Except as provided in subsections (b) (c), on the date a report is filed under section 26 of this chapter, the holder shall pay or deliver to the attorney general the property that is described in the report as unclaimed."

CASH BOND RECEIPT ISSUANCE AND DEPOSIT

A similar comment also appeared in prior Report B44996, entitled *RECEIPT ISSUANCE AND DEPOSIT*.

An examination of Police Department cash bond receipts for 2014 through 2017 revealed that 44 percent of receipt collections tested were not remitted timely to the Clerk of the City Court (Clerk). The Clerk receipt and deposit times ranged from 4 to 28 days after the Police Department receipt.

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

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

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

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

"The following are not required to deposit funds on the business day following receipt if the funds on hand do not exceed five hundred dollars (\$500): . . .

(3) A city or a town required to deposit funds under subsection (d). . . ."



Lake Station City Court
Judge: Hon. Joshua M. Matejczyk
1969 Central Ave. Lake Station, IN 46405
Phone: (219) 962-2145 Fax: (219) 962-1080

To: Paul D. Joyce, State Examiner

From: Joshua M. Matejczyk, Judge

RE: City Court, City of Lake Station Audit Results – OFFICIAL RESPONSE
Report Period Beginning: January 1, 2014
Report Period Ending: December 31, 2017

Audit Results:

Bank Account Reconciliations

The audit found that the Court cash book has not been reconciled with the deposit balances since September 2007, as is required pursuant to I.C. 5-13-6-1(e). A similar comment also appeared in Reports B41754, B44994, and B44996, entitled Bank Account Reconciliations.

Criminal Bonds Over Five Years Old

The audit found that there were approximately \$56,635 in bonds that were on hand with the Court Clerk for a period of at least five years. Bonds that are held for a period of five years after they become distributable are to be remitted to the Attorney General as unclaimed property pursuant to I.C. 32-34-1-20(c). A similar comment also appeared in Reports B44994 and B44996.

Cash Bond Receipt Issuance and Deposit

The audit found that 44% of cash bond receipts for 2014 through 2017 were not remitted timely to the Clerk of the City Court. Cash bonds are to be remitted to the Court Clerk and deposited no later than the next business day from their receipt, pursuant to I.C. 5-13-6-1(c). A similar comment also appeared in Report B44996.

Response:

Bank Account Reconciliations

This particular issue has persisted through several administrations now, dating back at least to September 2007. As to why this issue was not rectified after prior audits, I cannot say. Unfortunately, it appears to largely be the result of staff members performing this task incorrectly, and then training their replacement to also do this incorrectly. Due to the extreme amount of past records that will need to be reviewed and corrected, all options for insuring this matter is resolved as expeditiously as possible are being investigated, including comprehensive re-training programs and changes to staff responsibility. Such modifications will be in place no later than the end of January, although it is difficult to estimate precisely how long it will take to reconcile the over ten-year period of records.

Criminal Bonds Over Five Years

During the prior period, the Court did not have a policy or procedures in place to insure proper reporting of dispersible criminal bonds greater than five years old. This matter was brought to our attention earlier in 2018, and a policy has already been put in place to rectify this issue. Due to the policy being enacted in early 2018, and the audit period ending in December 2017, these changes are not reflected in the audit findings. There remained a question following the audit as to how bonds that are at least five years old but are attached to undisposed cases should be handled. Conversation with the Attorney General's Office yielded significant clarification, and the current bond remittance policy will be amended to reflect that new information.

Cash Bond Receipt Issuance and Deposit

This is an issue that impacts both the City Court and police department, as most bonds are receipted by the police department and then remitted to the Court Clerk. The Court Clerk and, it is my understanding, the police department have both undergone significant personnel changes over the last few years that has placed considerable strain on this particular aspect of the relationship between the two entities. The Court Clerk recently began allowing defendants to post cash bonds directly to the Court Clerk. We look forward to working with the police department to develop policies and procedures to insure the Court Clerk can do everything in our power to rectify this particular issue.

CITY COURT
CITY OF LAKE STATION
EXIT CONFERENCE

The contents of this report were discussed on December 12, 2018, with Joshua Matejczyk, City Judge.

The contents of this report were discussed on December 17, 2018, with Brenda Samuels, Clerk-Treasurer; Christopher Anderson, Mayor; Ericka Castillo, President Pro Tempore of the Common Council; Fred Williams, Common Council member; Carlos Luna, Common Council member; Esther Rocha-Baldazo, Common Council member; Jennifer Miller, Common Council member; James Meyer, Sanitary District Attorney; and Adrian Vera, Superintendent.

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POLICE DEPARTMENT
CITY OF LAKE STATION

POLICE DEPARTMENT
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS

CASH BOND RECEIPT ISSUANCE AND DEPOSIT

A similar comment also appeared in prior Report B44996, entitled *RECEIPT ISSUANCE AND DEPOSIT*.

An examination of Police Department cash bond receipts for 2014 through 2017 revealed that 44 percent of receipt collections tested were not remitted timely to the Clerk of the City Court (Clerk). The Clerk receipt and deposit times ranged from 4 to 28 days after the Police Department receipt.

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

". . . all local officers . . . who collect public funds of their respective political subdivisions, shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

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

"The following are not required to deposit funds on the business day following receipt if the funds on hand do not exceed five hundred dollars (\$500): . . .

- (3) A city or a town required to deposit funds under subsection (d)."

PUBLIC RECORDS RETENTION

A majority of the Police Department receipts for 2015 were not presented for audit. Three cash bond receipt books, each containing 150 receipts, were not presented for audit covering the period from December 2014 to September 2015. In addition, 11 general Police Department receipt books, or 1,650 receipts that were used for collections for gun permits, accident reports, VIN inspection, tow fees, etc., were not presented for audit from January 2015 to October 2015.

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."



LAKE STATION POLICE DEPARTMENT

Chief of Police – Dave Johnson#84 – Assistant Chief – Gerardo Baldazo #75



1969 CENTRAL AVE. | LAKE STATION, IN 46405 | (P) 219.962.1186 | (F) 219.962.8023

Official Response

To: Paul D. Joyce, State Examiner

Reference: Public Records Retention

From: David Johnson, Chief of Police

City of Lake Station Police Department Audit Results and Comments

Report period beginning date: January 1, 2014

Report period ending date: December 31, 2017.

Results from Audit:

Cash Bond Receipt Issuance and Deposit

A similar comment also appeared in prior report B44996, entitled Receipt Issuance and Deposit.

An examination of Police Department cash bond receipts for 2014 through 2017 revealed that 44 percent of receipt collections tested were not remitted timely to the Clerk of the City Court (Clerk). The Clerk receipt and deposit were from 4 to 28 days after the Police Department receipt.

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Response:

Cash Bond Receipt Issuance and Deposit

At the time of the audit there was not a policy in place at the police department and the person responsible for this procedure was laid off from employment. The person’s position has not been filled to date. The combination of eliminating a position and not having a policy caused the department to violate Indiana Code 5-13-6-1(c). The Lake Station Police Department will establish a policy that will serve as a necessary guideline that will educate anyone who has to fill the role of Chief administrator. In the policy an individual or two need to be the designated individuals responsible to fulfill the requirements of the policy. The policy for the receipting of money and deposit will be completed by December 30, 2018 and should be implemented by January 2, 2019.

Public Records Retention

The missing records from December 2014 to October 2015 occurred under the previous administration. It is unknown where the records were placed. All the records starting in November, 2015 to December 2018 under the current administration are accounted for. The Lake Station Police Department will establish a policy that will serve as a necessary guideline that will inform employees on the proper handling of financial records.

POLICE DEPARTMENT
CITY OF LAKE STATION
EXIT CONFERENCE

The contents of this report were discussed on December 10, 2018, with David Johnson, Chief of Police.

The contents of this report were discussed on December 17, 2018, with Brenda Samuels, Clerk-Treasurer; Christopher Anderson, Mayor; Ericka Castillo, President Pro Tempore of the Common Council; Fred Williams, Common Council member; Carlos Luna, Common Council member; Esther Rocha-Baldazo, Common Council member; Jennifer Miller, Common Council member; James Meyer, Sanitary District Attorney; and Adrian Vera, Superintendent.