

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

LAKE COUNTY, INDIANA

January 1, 2019 to December 31, 2019



FILED
05/10/2021

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
County Auditor	John Petalas	01-01-15 to 12-31-22
County Treasurer	Peggy Holinga Katona	01-01-15 to 12-31-22
Clerk of the Circuit Court	Lorenzo Arredondo	12-05-18 to 12-31-22
County Sheriff	Oscar Martinez, Jr	09-16-17 to 12-31-22
County Recorder	Michael B. Brown Gina Pimentel	01-01-17 to 12-31-20 01-01-21 to 12-31-24
President of the Board of County Commissioners	Michael C. Repay	01-01-19 to 12-31-21
President of the County Council	Ted F. Bilski, II	01-01-19 to 12-31-21



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2019 to December 31, 2019. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the County. It should be read in conjunction with our Financial Statements Audit Report of the County, which provides our opinions on the County'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

April 20, 2021

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COUNTY AUDITOR
LAKE COUNTY

COUNTY AUDITOR
LAKE COUNTY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

Condition and Context

There were several deficiencies in the internal control system of the County related to financial transactions and reporting.

Financial Statements and Notes to the Financial Statements

The County contracted with a consultant to prepare the County's financial statements and note disclosures in accordance with Generally Accepted Accounting Principles (GAAP). The consultant used the County's cash basis Annual Financial Report (AFR) submitted on the Indiana Gateway for Government Units financial reporting system as the basis for the financial statements. The County had a documented review over the cash basis AFR; however, evidence of the County's review and approval of the adjustments needed to the cash basis AFR for the GAAP accruals made by the consultants when compiling the GAAP financial statements were not documented. In addition, evidence of the County's review and approval of the completed GAAP financial statements, note disclosures, and other information was not documented.

Internal controls were not properly designed or implemented to ensure that the financial statements and note disclosures were accurate and complete. The following errors were noted:

1. The Internal Service Fund revenues and expenses were overstated by approximately \$42,000,000.
2. All General Fund expenditures were classified as general government, which understated the classification of the General Fund expenditures for public safety by \$35,891,484.
3. Agency Funds Taxes Payable, were understated by \$33,227,513.
4. Bond proceeds were overstated by \$18,000,000 in Note 6 - Long Term Liabilities.

Adjustments were proposed, accepted by the County, and made to the financial statements and note disclosures.

Capital Assets

The County contracted with a capital asset consultant to determine the detailed listing of capital assets. The County did not have internal controls in place to verify that the amounts on the detailed listing from the capital asset consultant were accurate or complete. The County did not perform a complete physical inventory as required.

Numerous errors were noted on the capital asset detailed listing. The capital asset detailed listing omitted a newly constructed County building, as well as included a building not owned by the County. The financial statements and notes to the financial statements reported an increase of \$22,992,333 in construction in progress; however, the capital asset detailed listing from the capital asset consultant did not list any additions to construction in progress. Construction in progress was an adjustment made by the compilers without an oversight or review process by the County. In addition, various items were included as construction in progress that should have been expensed rather than capitalized.

COUNTY AUDITOR
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

The County was unable to provide supporting documentation for any of the requested beginning capital assets reported. As a result, we were unable to audit capital assets, accumulated depreciation, and depreciation expense for the County. The opinion of the Governmental Activities reflects this matter.

Discretely Presented Component Units

The County did not include the Lake County, Crown Point, or Lowell Public Libraries as discretely presented component units on the financial statements. The County determined it would not be able to obtain any of the libraries' financial statements in a timely manner, so the libraries were omitted from the financial statements discretely presented component units. The opinion of the Aggregate Discretely Presented Component Units reflects this matter.

Internal Service Fund

The County contracts with third-party administrators to process the medical and prescription claims for the County's self-insurance plan. Internal controls over the transactions and balance of the fiduciary account held with the third-party administrator were not designed or implemented properly to ensure accurate reporting of financial transactions and account balances.

Net Pension Liability (Asset)

Internal controls were not designed to ensure that the financial statements, and the related notes were complete and free of material misstatements. The County failed to report the Net Pension Assets - Sheriff Pension, understating assets by \$1,264,068. The County also understated the Net Pension Liabilities - Sheriff Pension by \$1,264,068, Deferred Outflows of Resources - Pension related by \$6,314,350, and Deferred Inflows of Resources - Pension related by \$5,007,781. Adjustments were proposed, accepted by the County, and made to the financial statements by the County.

The County had not separated incompatible activities related to the County Police Pension Plans Census Data (census data). The Commander of Staff Services worked with the County's pension consultant in the preparation of the census data for the actuary. There was no written indication that the supporting detail for the census data was reviewed prior to submission to ensure the census data was accurate and correctly presented.

Other Post-Employment Benefits (OPEB)

The County had not separated incompatible activities related to the OPEB Census Data (census data). The census data was compiled by the County's third-party administrator (TPA) and sent to the County's Payroll Department, Human Resources Department, and to the actuary. In the original census data provided to the actuary, the hire date for all employees/retirees was not accurately reported. The County officials prepared new census data to correct this error and provided new hire dates for all employees/retirees to the actuary. The actuary performed a new valuation as of December 31, 2019, in February 2021. Written documentation of a review or oversight process by the County prior to providing the information to the actuary ensuring the accuracy of the census data was not provided for either the original or revised census data.

COUNTY AUDITOR
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Internal controls were not designed to ensure that the financial statements, and the related notes were complete and free of material misstatements. Due to the error noted in the original census data provided, the Total other postemployment benefits liability was understated by \$218,907,497, the OPEB Expense was understated by \$17,334,600, and the Deferred Outflows of Resources - OPEB related was understated by \$20,503,326. Adjustments were proposed, accepted by the County, and made to the financial statements by the County.

The County also failed to establish controls to ensure OPEB benefits were only paid to retirees and beneficiaries that were alive and eligible for the OPEB benefits.

Statement of Fiduciary Net Position - Fiduciary Funds

The presentation of the Statement of Fiduciary Net Position - Fiduciary Funds (Statement) included numerous errors. Presentation errors noted on the Statement were brought to the attention of the officials. Adjustments were proposed, accepted by the County, and made to the financial statements by the County.

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. . . ."

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1)

COUNTY AUDITOR
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

ACCOUNTS PAYABLE VOUCHER DEFICIENCIES

The same comment also appeared in seven prior reports, including the three most recent Reports B49219, B51083, and B53069.

Condition and Context

On September 13, 2017, the County adopted Ordinance 1412C, which addressed the specific types of expenses that can be paid in advance of board allowance in accordance with Indiana Code.

The County Auditor's office submitted an Accounts Payable by Fund for Due Date Report (LC130) to the Board of County Commissioners office prior to issuing checks for payment of Accounts Payable Vouchers (APV). Once the LC130 report had two Commissioners' signatures (one of the Commissioner's signatures would be stamped by a Commissioner Office employee), the County Auditor's office processed and posted the APVs and issued the checks. However, the APVs listed on the LC130 were not being presented for approval to the Board of County Commissioners at their next meeting, nor were they included in the official Accounts Payable Voucher Register or docket signed at a public meeting as required by statute.

Criteria

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 the county auditor 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. . . ."

COUNTY AUDITOR
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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.

(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)

COUNTY AUDITOR
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

MOTOR VEHICLE HIGHWAY (MVH) RESTRICTED

Condition and Context

Starting on January 1, 2019, the County was required to create a Motor Vehicle Highway (MVH) restricted sub-fund, that would be used exclusively for the construction, reconstruction, and preservation of the County's highways. The County recorded \$809,519 in payroll disbursements from the MVH restricted sub-fund; however, the County was unable to document that the payroll disbursements were for the construction, reconstruction, and preservation of the County's highways.

As of January 1, 2020, the County has stated it will not pay any payroll related expenses from the MVH restricted sub-fund to ensure only allowable amounts are paid from the fund.

Criteria

Indiana Code 8-14-1-4(b) states: "For funds distributed to a county from the motor vehicle highway account, the county shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the county's highways."

PURCHASES OF SUPPLIES UNDER BID

Condition and Context

Internal controls were not established for ensuring vendors were only paid based upon submission of properly itemized invoices, which were compared to bid awards/contracts. The County awarded a bid for lighting in the amount of \$435,000. The bid submitted by the lighting contractor and approved by the Board of County Commissioners (Board) included itemized product descriptions, costs, and quantities.

Invoices submitted by the lighting contractor, and approved for payment by the Board, did not include the itemized product descriptions, costs, and quantities for which payment was requested. One of the three invoices included a list of items, but quantities and costs were omitted. Furthermore, not all items listed agreed to the product descriptions per the bid. The County received and paid three invoices totaling \$415,000.

The following additional deficiencies were noted:

1. For each of the three Accounts Payable Vouchers (APV) completed for the invoices, additional information was not written in the blank lines on the APV to indicate that any materials invoiced were not received.
2. The County could not provide a list or inventory of the materials and/or supplies received from the lighting contractor as of October 20, 2020.
3. Each of the three APV had been stamped with the signature of the County Auditor certifying: "I hereby certify that the attached invoice(s), or bill(s), is (are) true and correct and I have audited same in accordance with IC 5-11-10-2."

We could not determine how the County Auditor was able to certify that the attached invoices were true and correct, and audited, due to the lack of itemized invoices.

COUNTY AUDITOR
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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. . . ."

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

"Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer."

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. . . .

COUNTY AUDITOR
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

(d) The fiscal officer of a governmental entity shall issue checks or warrants for claims by the governmental entity that meet all of the requirements of this section. The fiscal officer does not incur personal liability for disbursements:

- (1) processed in accordance with this section; and
- (2) for which funds are appropriated and available. . . ."

COUNTY AUDITOR
LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on April 20, 2021, with John Petalas, County Auditor; Ted F. Bilski, II, President of the County Council; Michael C. Repay, President of the Board of County Commissioners; Jane Dudley, Chief Deputy County Auditor; Matthew N. Fech, Attorney for the Board of County Commissioners; Ajaz Mohammed, Director of Financial Operations; and Scott Schmal, Finance Director.

COUNTY TREASURER
LAKE COUNTY

COUNTY TREASURER
LAKE COUNTY
AUDIT RESULT AND COMMENT

INVESTMENTS

Condition and Context

There was a deficiency in the internal control system of the County related to investments.

An electronic investments ledger was maintained by one individual without an oversight or review process documented.

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:

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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. . . ."

COUNTY TREASURER
LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on April 14, 2021, with Peggy Holinga Katona, County Treasurer, and Glenn Cantrell, Finance Manager.

The contents of this report were discussed on April 20, 2021, with John Petalas, County Auditor; Ted F. Bilski, II, President of the County Council; Michael C. Repay, President of the Board of County Commissioners; Jane Dudley, Chief Deputy County Auditor; Matthew N. Fech, Attorney for the Board of County Commissioners; Ajaz Mohammed, Director of Financial Operations; and Scott Schmal, Finance Director.

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CLERK OF THE CIRCUIT COURT
LAKE COUNTY

CLERK OF THE CIRCUIT COURT
LAKE COUNTY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

A similar comment also appeared in prior Reports B49219, entitled *FINDING 2016-003*; B51083, entitled *FINDING 2017-002*; and B53069, entitled *FINDING 2018-001* for *Financial Transactions and Reporting*.

Condition and Context

There were several deficiencies in the internal control system of the Clerk of the Circuit Court's (Clerk) office related to financial transactions and reporting that constituted material weaknesses and are as follows:

1. Bank Reconciliations: The Clerk did not have a proper system of internal controls in place to ensure that the accounting record balances were reconciled with all the bank depository balances at least monthly as required by Indiana Code.

The Clerk's office had not reconciled any of the bank accounts, including the court order investments, associated with the prior software system. Furthermore, errors noted since the conversion to the new software in May 2018, which resulted in the reconciled bank balance to be lower than the record balance, continue to be carried on the bank reconciliation. Additional audit procedures were performed and determined that the cash and investment balance reported in the financial statement was materially correct.

2. Monitoring of Controls: The Clerk did not have an effective process to identify or communicate corrective actions to improve internal controls. Effective internal controls over financial reporting required the Clerk to monitor and assess the quality of the system of internal controls.
3. Preparing Financial Statement: The Clerk did not have an effective internal control over financial reporting to ensure the preparation of accurate and complete financial reports to be included in the County's Annual Financial Report (AFR) and financial statement. The Clerk did not include two accounts when reporting the Supplemental County Annual Report (CAR) to the County Auditor for inclusion in the County's financial statements.

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:

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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. . . ."

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 Clerks of the Circuit Courts of Indiana, Chapter 1)

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)

BANK ACCOUNT RECONCILIATIONS

A similar comment also appeared in thirteen prior reports, including the three most recent Reports B49219, B51083, and B53069, entitled *BANK ACCOUNT RECONCILIATIONS*.

Condition and Context

Prior to the conversion to a new software system, the Clerk of the Circuit Court's (Clerk) eight divisions were to reconcile their adjusted bank balances to the former software program ledger balances.

In May 2018, the Clerk converted to a new software system, as well as consolidated to maintain one bank account for all divisions. For conversion to the new software system, the divisions ceased using the old bank accounts and were to transfer the operating cash and investment balances to the new combined bank account.

Balances remained in the old bank accounts more than the amounts necessary to cover the checks written prior to May 21, 2018, that had not been cashed (outstanding checks). We would have expected all balances in excess of the total outstanding checks to be transferred to the new consolidated bank account in 2018; however, as of February 16, 2021, this has not occurred.

Upon request for all bank statements and reconcilements, the Clerk had only provided bank accounts associated with the current software systems. Bank statements and reconcilements of the bank accounts that remain open from the prior software system were not readily provided. Not until we specifically requested the bank statements and reconcilements for these accounts were they provided. Ten bank account statements totaling \$288,980 as of December 31, 2019, were provided; however, monthly reconciliations had not been completed. Additional audit procedures were performed to ensure the cash and investments balances reported were materially correct.

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

Additionally, we found the December 2019 bank reconciliation for the new software system included a \$423,787 outstanding deposit in transit from May 2018 from one of the divisions. Unfortunately, at the time of conversion, the division was not reconciled, and did not have the balance to transfer even though the related court cases were transferred to the new software system. This outstanding item resulted in the reconciled bank balance to be lower than the record balance by \$423,787. The Clerk has made no attempt to research this difference or correct the records. As of February 16, 2021, the outstanding deposit in transit remains on the bank reconciliation.

Furthermore, the additional audit procedures performed on the prior software bank accounts that remain open, for which monthly reconciliements were not presented for audit, continued to identify the following deficiencies:

1. At December 31, 2019, the Crown Point Civil Division's bank balance was \$1,968 more than the outstanding check listing, resulting in a cash long; and the Traffic Division's bank balance was \$8,453 less than the outstanding check listing, resulting in a cash necessary to balance. No attempt was made to research these variances.
2. At December 31, 2019, the East Chicago Division bank balance was \$3,608 more than the outstanding check listing and represents an accumulation of many years of uncorrected errors. No attempt was made to research these differences.
3. At December 31, 2019, the Gary Division bank balance was \$171,769 more than the outstanding check listing. At December 31, 2019, the bank balances for the court ordered investments at the Gary Division was \$281,517, \$9,983 more than the manual ledger of investments of \$271,534. Furthermore, the manual ledger of investments omitted one bank account.
4. The Hammond Small Claims Division's bank balance was \$2,149 less than the outstanding check listing, resulting in a cash necessary to balance; the Civil Division's bank balance was \$14,741 more than the outstanding check listing, resulting in a cash long; and the Traffic Division's bank balance was \$6,670 more than the outstanding check listing, resulting in a cash long. No attempt was made to research these differences.

Criteria

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)

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

BOND FORFEITURES

The same comment also appeared in eight prior reports, including the three most recent Reports B49219, B51083, and B53069.

Condition and Context

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 (Clerk) 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 approximately 578 older cash bonds held in Trust by the Clerk's office at December 31, 2019. The cash bonds on hand, received between the years of 2002 to 2013 for criminal defendants, totaled approximately \$297,438.

Criteria

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.

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

(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."

CLERK OF THE CIRCUIT COURT
LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on April 19, 2021, with Nikki Angel, Executive Chief Deputy, and Rebecca Dowling, Finance Manager.

The contents of this report were discussed on April 20, 2021, with John Petalas, County Auditor; Ted F. Bilski, II, President of the County Council; Michael C. Repay, President of Board of County Commissioners; Jane Dudley, Chief Deputy County Auditor; Matthew N. Fech, Attorney for the Board of County Commissioners; Ajaz Mohammed, Director of Financial Operations; and Scott Schmal, Finance Director.

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COUNTY RECORDER
LAKE COUNTY

COUNTY RECORDER
LAKE COUNTY
AUDIT RESULT AND COMMENT

BANK ACCOUNT RECONCILIATIONS AND REMITTANCES

A similar comment also appeared in eleven of the thirteen prior reports, including the three most recent Reports B49219, B51083, and B53069.

Condition and Context

The County Recorder failed to perform monthly reconciliations of the Fee and Cash Book to the depository balance as required by Indiana Code. A safeguard was not in place to ensure that all monies were timely and accurately remitted to the County Auditor. Additional audit procedures were performed and determined there was an excess cash balance totaling \$63,546 that was not remitted to the County.

Criteria

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)



OFFICE OF THE LAKE COUNTY RECORDER

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

GINA PIMENTEL
Recorder



PHONE (219) 755-3730
FAX (219) 648-6094

April 13, 2021

To the State Board of Accounts:

This letters serves as our official response to the results and comments from the State Board of Accounts in regards to our 2019 repeat findings: Bank Account Reconciliations and Remittances.

The Lake County Recorder's Office agrees with this finding. To correct this finding, Lake County Recorder Gina Pimentel has uploaded the following documents in Gateway for 2019-2021:

- Bank Statements for all accounts
- Bank Enclosures
- Form 362
- Form 3
- Close of Month Balances (2021-2021)

Excel sheets are used for each bank account to further track all deposits, credit card amounts, E-Recording amounts, and NSF checks. Reconciliation is completed comparing these Excel sheet amounts to the bank statements. This has proven to be accurate and successful.

It certainly is the hope of the Lake County Recorder's Office that this repeat finding will no longer be pertinent so our office can be in complete compliance with the State Board of Accounts.

Your assistance is very appreciated during this time to make things right.

Kind regards,

Regina M. Pimentel

Gina Pimentel
Lake County Recorder

Sherry Serences

Sherry Serences
Chief Deputy, Lake County Recorder

COUNTY RECORDER
LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on April 12, 2021, with Gina Pimentel, County Recorder.

The contents of this report were discussed on April 20, 2021, with John Petalas, County Auditor; Ted F. Bilski, II, President of the County Council; Michael C. Repay, President of Board of County Commissioners; Jane Dudley, Chief Deputy County Auditor; Matthew N. Fech, Attorney for the Board of County Commissioners; Ajaz Mohammed, Director of Financial Operations; and Scott Schmal, Finance Director.

BOARD OF COUNTY COMMISSIONERS
LAKE COUNTY

BOARD OF COUNTY COMMISSIONERS
LAKE COUNTY
AUDIT RESULTS AND COMMENTS

ACCOUNTS PAYABLE VOUCHER DEFICIENCIES

The same comment also appeared in seven prior reports, including the three most recent Reports B49219, B51083, and B53069.

Condition and Context

On September 13, 2017, the County adopted Ordinance 1412C, which addressed the specific types of expenses that can be paid in advance of the Board of County Commissioners' allowance in accordance with Indiana Code.

The County Auditor's office submitted an Accounts Payable by Fund for Due Date Report (LC130) to the Board of County Commissioners office prior to issuing checks for payment of Accounts Payable Vouchers (APV). Once the LC130 report had two Commissioners' signatures (one of the Commissioner's signatures would be stamped by a Commissioner Office employee), the County Auditor's office processed and posted the APVs and issued the checks. However, the APVs listed on the LC130 were not being presented for approval to the Board of County Commissioners at their next meeting, nor were they included in the official Accounts Payable Voucher Register or docket signed at a public meeting as required by statute.

Criteria

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 the county auditor to do so.

. . .

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

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

- (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.

(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."

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

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)

BIDS

Condition and Context

Bid Requirements

The County did not have internal controls in place for properly monitoring bid compliance with state statutes, including, but not limited to, review of advertised requirements for bids to actual bids and documents submitted. Per the bid tally sheets, the only criteria noted was: Bidder, Bid Amount, "Arch Bid Form," Bid Bond, and Addendum. Nothing was noted regarding the requirement for either the Form 91 or 95 to be used.

On December 26, 2017 and January 2, 2018, the County Board of Commissioners advertised Project #2A - Re-Bid - LED Light Fixtures and Lamp Material Acquisition for various County Government Facilities. The advertisement stated the following:

"All Bids must be submitted on Form No. 91 or No. 95, a satisfactory bid bond executed by the bidder and surety company or a certified check or bank draft, payable to the Board of Commissioners of Lake County Government, in an amount equal to five percent (5%) of their maximum bid for all bids over \$100,000, as provided by law. . . ."

Two bids were received. Neither bidder submitted their bid on Form No. 91 or No. 95, which was the advertised requirement for the submission of the bids.

Bid Award

The bid was awarded to a lighting contractor upon the recommendation of the Office of the Attorney to the Board of County Commissioners. The lighting contractor's bid exceeded the second bid by \$3,974.48; however, the lighting contractor was afforded an Indiana Company price preference per the Attorney's recommendation to the Commissioners.

The Affidavit of Price Preferences (County Form 4) was completed for the criteria for an Indiana Small Business as defined by Indiana Code 5-22-14-1.

The solicitation for bids did not state that offers would be accepted only by small businesses; therefore, we found no authority for providing a price preference for an Indiana Small Business.

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:

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

"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. . . ."

Indiana Code 5-22-7-7 states in part:

"Bids must be: . . .

- (2) evaluated based on the requirements provided in the invitation for bids."

Indiana Code 5-22-14-1 states:

"As used in this chapter, 'small business' means a business that:

- (1) is independently owned and operated;
- (2) is not dominant in its field of operation; and
- (3) satisfies the criteria in the rules under section 3 of this chapter."

Indiana Code 5-22-14-2 states: "As used in this chapter, 'small business set-aside' means a purchase in which the solicitation states that offers will be accepted only by small businesses."

Indiana Code 5-22-14-4(b) states: "A small business designation must be made before the solicitation for the purchase is issued and the public notice of the purchase must state that the purchase is a small business set-aside."

PURCHASES OF SUPPLIES UNDER THE BID

Condition and Context

Internal controls were not established for ensuring vendors were only paid based upon submission of properly itemized invoices, which were compared to bid awards/contracts. The County awarded a bid for lighting in the amount of \$435,000. The bid submitted by the lighting contractor and approved by the Board of County Commissioners (Board) included itemized product descriptions, costs, and quantities.

Invoices submitted by the lighting contractor, and approved for payment by the Board, did not include the itemized product descriptions, costs, and quantities for which payment was requested. One of the three invoices included a list of items, but quantities and costs were omitted. Furthermore, not all items listed agreed to the product descriptions per the bid. The County received and paid three invoices totaling \$415,000.

BOARD OF COUNTY COMMISSIONERS
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The following additional deficiencies were noted:

1. For each of the three Accounts Payable Vouchers (APV) completed for the invoices, additional information was not written in the blank lines on the APV to indicate that any materials invoiced were not received.
2. The County could not provide a list or inventory of the materials and/or supplies received from the lighting contractor as of October 20, 2020.
3. Each of the three invoices submitted to the County for payment by the lighting contractor were attached to APVs, which were signed by the President of the Board of County Commissioners, certifying: "I hereby certify that the attached invoice(s), or bill(s), is (are) true and correct and that the materials or services itemized thereon for which charge is made were ordered and received except." The APVs allow blank space to be completed as necessary, for a list of any materials or services not received.

We could not determine how the President of the Board of County Commissioners was able to certify that all materials and services were received by the County as an itemization of the materials was either not provided on the invoice attached, or the list of items was too vague and did not include quantities for comparison to the bid.

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. . . ."

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

"Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer."

BOARD OF COUNTY COMMISSIONERS
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(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:

- (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. . . .

(d) The fiscal officer of a governmental entity shall issue checks or warrants for claims by the governmental entity that meet all of the requirements of this section. The fiscal officer does not incur personal liability for disbursements:

- (1) processed in accordance with this section; and
- (2) for which funds are appropriated and available. . . ."

BOARD OF COUNTY COMMISSIONERS
LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on April 20, 2021, with John Petalas, County Auditor; Ted F. Bilski, II, President of the County Council; Michael C. Repay, President of Board of County Commissioners; Jane Dudley, Chief Deputy County Auditor; Matthew N. Fech, Attorney for the Board of County Commissioners; Ajaz Mohammed, Director of Financial Operations; and Scott Schmal, Finance Director.