

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

LAKE COUNTY, INDIANA

January 1, 2020 to December 31, 2020



FILED
07/18/2022

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SCHEDULE OF OFFICIALS

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



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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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, 2020 to December 31, 2020. 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 Statement Audit Report of the County, which provides our opinions on the County's financial statement. 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.

Beth Kelley, CPA, CFE
Deputy State Examiner

June 28, 2022

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COUNTY AUDITOR
LAKE COUNTY

COUNTY AUDITOR
LAKE COUNTY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

The same comment also appeared in prior Report B56720.

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 as well as a documented review and approval of the adjustments needed to convert the cash basis AFR to GAAP financial statements. In addition, the County had a documented review and approval of the completed GAAP financial statements, note disclosures, and other information.

However, the internal controls were not effective to ensure that the financial statements and note disclosures were accurate and complete. The following errors were noted:

1. Property taxes receivable was understated by \$165,328,038.
2. The County reported the subsequent year taxes receivable as revenue instead of unavailable revenue. This resulted in revenue and net position on the Statement of Net Position to be overstated and the unavailable revenue to be understated by \$170,709,676.
3. Other receipts on the Statement of Activities were understated by \$52,154,370.
4. The General Fund revenue and expenditures were overstated by \$47,464,172.
5. Note 3 - Investment and Maturities Table under Fixed Income Investments reported for Year 1-2 was understated by \$30,140 and the Fixed Income Investments for years 3-15 were overstated by the same amount.
6. Note 9 - Risk Management and Self Insurance-Changes in the balance of self-insurance claim liabilities during the year: "Incurred claims and changes in estimates" was overstated by \$5,134,062. The County failed to take out the beginning balance.
7. Note 11 - County Police Retirement Plan-Pension expense for the county police retirement plan was overstated by \$2,251,978.

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

COUNTY AUDITOR
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Net Position/Fund Balance

The County had designed and implemented a process of review and oversight over the net position/fund balance, but the internal control was determined to be ineffective. The County reported the subsequent year taxes receivable as revenue instead of unavailable revenue, which resulted in the overstatement of revenue and net position by \$170,709,676.

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

Capital Assets

The County contracted with a 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 consultant were accurate or complete. Additionally, 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 included a building not owned by the County. The financial statements and notes to the financial statements reported an overstated beginning balance of \$22,992,333 in construction in progress. This was due to an error in the prior audit period in which the financial statements and notes to the financial statements reported an increase in additions of \$22,992,333 for construction in progress, but the Detailed Capital Asset listing did not include the increase and was not corrected by the County from the prior audit.

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 on the Aggregate Discretely Presented Component Units reflects this matter.

Salaries and Payroll Deductions Payable

Internal controls were not properly designed or implemented to ensure that the financial statements were accurate over the classification and reporting of salaries and payroll deductions payable (salaries payable) expense.

The County did not report the Major Fund (General Fund), salaries payable expense to the correct expense function classification for 7 of the 20 or 35 percent of the departments tested. The County reported the salaries payable expense as general government expense instead of public safety, highways and streets, or health and welfare expenses depending on the function of the department.

Additionally, the County did not report the Nonmajor Governmental Funds salaries payable expense in the correct fund for 11 of 15 or 73 percent of the funds tested. The expense for these funds was reported in the General Fund instead.

COUNTY AUDITOR
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Statement of Fiduciary Net Position - Fiduciary Funds

The following errors, including presentation errors, were noted in the Statement of Fiduciary Net Position - Fiduciary Funds:

1. The County understated deferred outflows of resources - pension related and deferred inflows of resources - pension related by \$1,753,728.
2. The County combined and reported together "Domestic and Foreign Equities" and "Other" Investments at Fair Value.
3. The County failed to accurately label "Net Position Restricted for Pensions" in the Statement.

Other Post-Employment Benefits (OPEB)

The County had not separated incompatible activities related to the OPEB Census Data. The Census Data was compiled by the County's Third-Party Administrator and sent to the County's Payroll Department, Human Resources Department, and to the Actuary. There was no written documentation ensuring the accuracy of the Census Data by the County prior to the actuary preparing the Valuation Report.

In addition, the County failed to establish internal controls to ensure OPEB benefits were only paid to retirees and beneficiaries that were alive and eligible for the OPEB benefits.

Blended Component Unit-Building Corporation

The County reported the building corporation as a blended component unit; however, there were no internal controls in place for the cash and investment balances, revenue, or expenses activity reported on the financial statements.

Taxes Receivable

The tax rates were sent by the State to the County and uploaded into the County's tax system to be used for billing taxes, without a review or oversight process to ensure that the different tax rates were uploaded correctly.

After taxes were calculated by the County's tax system, the reports were sent to a consultant for further review. When the County received the reports back from the consultant, the County reviewed this information. However, there was no documentation that the additional review occurred at the County.

The County used a separate consultant to prepare the GAAP financial statements. The County had a documented review and approval of the completed GAAP financial statements, which included taxes receivable; however, the internal controls were not effective as use of the prior year's rate for allocation of the County's portion of the taxes receivable was detected during testing.

COUNTY AUDITOR
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Debt-Capital Leases and Interest on Debt

Internal controls were not properly designed or implemented to ensure that the financial statements were accurate over the amount of expenditures related to debt on capital leases and interest. Capital lease expenditures were based on the amortization schedule instead of the actual payments. For example, the County had made an early pay off on two leases, paying an additional \$531,123 in principal and \$16,625 in interest, which resulted in an understatement of principal and interest expense.

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 5-11-1-4(a) states:

"The state examiner shall require from every audited entity financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

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."

COUNTY AUDITOR
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

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)

CARES ACT FUND

Condition and Context

The County did not properly account for the Coronavirus Relief Fund (CRF) in accordance with State Examiner Directive 2020-3 (Directive).

The County received \$15,716,125 of CRF funding from Indiana Finance Authority (IFA) during 2020, of which \$15,296,702 was for public health and safety payroll costs, and \$414,423 was for other expenses. The Board of County Commissioners adopted Resolution 20-08 on December 16, 2020, which stated, "a claim shall be created against the CFR grant fund, up to the payroll reimbursement amount, that Lake County determines shall be receipted to the general fund . . ."

1. Prior to the adoption of the Resolution, the County had transferred \$3,123,385 from the LC Coronavirus Relief Fund to other funds using journal entries; however, the County should have processed reversing entries as required by the Directive. The amounts receipted into the other funds by the journal entries were not supported and did not tie back to items requested for reimbursement.

Description	Payroll Related	Other Expenses	Totals
CFR Reimbursement Received Classified by purpose	\$ 15,296,702	\$ 419,423	\$ 15,716,125
Less: Amounts transferred to other funds in 2020	15,284	3,108,101	3,123,385
Less: Amounts transferred to other funds in 2021	<u>12,506,275</u>	<u>86,465</u>	<u>12,592,740</u>
CFR reimbursement (transferred) not transferred in accordance with the reimbursement request purpose	<u>\$ 2,775,143</u>	<u>\$ (2,775,143)</u>	<u>\$ -</u>

2. As of December 31, 2020, the LC Coronavirus Relief Fund had a balance of \$12,592,740, instead of a zero balance as required. On March 5, 2021, a journal entry, instead of a claim as noted in the Resolution was used to move \$12,506,275 to the General Fund and \$86,465 to the Community Corrections Fund. However, all reimbursements should have been claimed to the General Fund, which would have allowed the money to be expended for any general unit purpose.

Criteria

Public Health and Safety Payroll Costs

Transactions for public health and safety payroll costs must be accounted for through one of these two prescribed options.

COUNTY AUDITOR
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Option One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. The reimbursed amount for public health and safety payroll costs originally incurred in the general fund (or other fund) will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the general fund (or other fund) cash balance and re-appropriate the general fund (or other fund) in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the general fund (or other fund), it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once option one is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

Option Two. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. A claim will be created against the separate CARES grant fund for the reimbursed amount in favor of the general fund. This claim must be supported by documentation of the public health and safety payroll costs that have been expensed from the general fund or other funds.

The amount of the claim will be receipted into the general fund cash balance. Normal appropriation procedures will apply to these funds.

Once option two is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. This option requires a resolution or ordinance as detailed in the memorandum *CARES Reimbursement of Public Health and Safety Payroll Costs, September 30, 2020.* . . .**

Reimbursed Costs Other than Public Health and Safety Payroll Costs

Transactions for other permitted costs reimbursed by IFA must be accounted for through one of the following prescribed frameworks.

Framework One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. Reimbursed disbursements originally incurred in another fund will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the fund cash balance and re-appropriate the fund in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the original fund, it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

COUNTY AUDITOR
LAKE COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Framework Two. If IFA has provided reimbursement based on unpaid invoices or purchase orders, then reimbursements received from IFA shall be receipted into the separate CARES grant fund. The expenditures to vendors will be made through the CARES grant fund and these expenditures must match the application made to IFA. If the actual invoice or invoices relating to a purchase order is less than the purchase order, then the difference in the money expended to the vendor and the amount received for the purchase order from IFA must be returned to IFA. The items on the invoice must match the items on the purchase order. All documentation must be maintained.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund.** . . .

Framework Three. If you have created a negative balance in your CARES fund based on expenditures made in anticipation of receipt of reimbursement for allowable expenditures where invoices have already been submitted to IFA then leave as is and receipt reimbursement when received, bringing the balance in the separate CARES grant fund to zero. Going forward, expend any anticipated allowable expenditures from a fund with an appropriation and follow framework one. If a negative balance in the CARES grant fund is not fully reimbursed, then the unreimbursed amount will require a reverse entry and posting of the expenditure to the general or other appropriate fund within an appropriated line item. . . . (State Examiner Directive 2020-3)

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED

A similar comment also appeared in prior Report B56720.

Condition and Context

The County created a Motor Vehicle Highway (MVH) Restricted sub-fund within the Motor Vehicle Highway Fund and posted 50 percent of the state motor vehicle highway distributions to the sub-fund as required. However, the County disbursed \$56,039 for bulk road salt, diesel and unleaded fuel, and a repair on a well pump from the MVH Restricted Fund. These disbursements were not for the construction, reconstruction, and preservation of the County's highways.

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."

COUNTY AUDITOR
LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on June 28, 2022, with John Petalas, County Auditor; Michael Repay, President of the Board of County Commissioners; Ajaz Mohammed, Director of Financial Operations; Jane Dudley, Chief Deputy County Auditor; Peggy Holinga Katona, County Treasurer; Kathy Piekut, Chief Deputy County Treasurer; Glenn Cantrell, Investment Manager/Finance Manager; Priscilla Kirrin, Bookkeeping Supervisor/County Treasurer; and Ofelia Gregoline, Executive Assistant/County Auditor.

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COUNTY TREASURER
LAKE COUNTY

COUNTY TREASURER
LAKE COUNTY
AUDIT RESULT AND COMMENT

FINANCIAL TRANSACTIONS

Condition and Context

There was a deficiency in the internal control system of the County Treasurer related to financial transactions.

The County Treasurer's office maintained the County Treasurer's Daily Balance of Cash and Depositories (Cash Book) which reflected the daily receipts and disbursements, total amount of cash and investments on hand, and a proof of the financial condition at the close of each day. One individual gathered all the information together and recorded it in the County Treasurer's Cash Book without a documented oversight or review process.

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. . . ."

COUNTY TREASURER
LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on June 28, 2022, with Peggy Holinga Katona, County Treasurer; Michael Repay, President of the Board of County Commissioners; Kathy Piekut, Chief Deputy County Treasurer; Glenn Cantrell, Investment Manager/Finance Manager; Priscilla Kirrin, Bookkeeping Supervisor/County Treasurer; John Petalas, County Auditor; Ajaz Mohammed, Director of Financial Operations; Jane Dudley, Chief Deputy County Auditor; Ofelia Gregoline, Executive Assistant/County Auditor; and Victoria Rivera, Assistant Financial Administrator/County Council member.

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CLERK OF THE CIRCUIT COURT
LAKE COUNTY

CLERK OF THE CIRCUIT COURT
LAKE COUNTY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS

A similar comment also appeared in prior Reports B51083, entitled *FINDING 2017-002*; B53069, entitled *FINDING 2018-001 for Financial Transactions and Reporting*; and B56720, entitled *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.

Bank Reconciliations

The Clerk did not have a proper system of internal control 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 ordered 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 it was determined that the cash and investment balance reported in the financial statements was materially correct.

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.

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. . . ."

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

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 14 prior reports, including the three most recent Reports B51083, B53069, and B56720, 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, 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 remaining in the old bank accounts were more than the amounts necessary to cover the outstanding checks written prior to May 21, 2018. We would have expected all balances more than the total outstanding checks to be transferred to the new consolidated bank account in 2018. In 2020 and 2021, the old bank accounts started to be closed and transferred into a holding account.

Additionally, the December 2020 bank reconciliation for the new software system included a \$423,787 outstanding deposit in transit from May 2018 from one of the court 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's staff have been making attempts to research this difference in order correct the records. However, as of February 14, 2022, the outstanding deposit in transit remains on the bank reconciliation.

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

1. At December 31, 2020, the Crown Point Traffic Division's bank balance was \$8,593 less than the outstanding check listing, resulting in a cash necessary to balance. No attempt was made to research these variances.

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

2. At December 31, 2020, the Gary division bank balance was \$171,769 more than the outstanding check listing. No attempt was made to research these variances.
3. 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 cash long. No attempt was made to research these variances.

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'S TRUST ITEMS

A similar comment also appeared in nine prior reports, including the three most recent Reports B51083, B53069, and B56720, entitled *BOND FORFEITURES*.

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 judgement. 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 Clerk had \$22,894,566 held in trust at December 31, 2020. Of the 25 trust items tested, 21 items, or 84 percent, were determined to not have been properly distributed as follows:

1. Of the items placed in trust, 2 should have been returned to either plaintiff or defendant.
2. Of the items held in trust, 2 had an order to release the bond to the defendant. As of December 20, 2020, the amounts remained in trust.
3. Of the items held in trust, 3 should have been sent to unclaimed property but remained held in trust.
4. Of the items held in trust, 14 should have been forfeited or distributed but were waiting on an order from the court.

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

Criteria

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 1)

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) and (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."

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.

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

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

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

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

(1) any amount remaining on deposit with the court (less the fees retained by the clerk);
and

(2) any amount collected in satisfaction of the judgment.

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



HON. LORENZO ARREDONDO

CLERK LAKE CIRCUIT/SUPERIOR COURT
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CROWN POINT, INDIANA 46307

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1049-H

OFFICIAL RESPONSE

Date: April 27, 2022

Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: Bank Reconciliations

This letter is in response to the comment regarding the Clerk's office not reconciling any of the bank accounts, including the court ordered investments associated with the prior software.

It is our opinion that this this statement needs clarification.

The Clerk's office has 3 court case/ financial management systems. Each systems has a bank account that is reconciled each month. The Odyssey and Quest Juvenile are up to date in being uploaded into Gateway. The Child Support Isets will be uploaded into Gateway going forward. There are 5 bank accounts associated with the prior software that are monitored with a manual ledger verified with the bank statement. In 2021 these accounts have been closed and transferred into one holding account.

The Clerk's office maintains 46 Court ordered interest bearing accounts. All of these accounts have been reconciled using the process of recording a manual entry of earned interest on a ledger, verified with the bank statement. This has been the procedure for many years.

Lorenzo Arredondo
Lake County Clerk

CLERK OF THE CIRCUIT COURT
LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on April 21, 2022, with Nikki Angel, Executive Chief Deputy - Clerk of the Circuit Court, and Rebecca Dowling, Finance Manager.

The contents of this report were discussed on June 28, 2022, with John Petalas, County Auditor; Michael Repay, President of the Board of County Commissioners; Ajaz Mohammed, Director of Financial Operations; Jane Dudley, Chief Deputy County Auditor; Peggy Holinga Katona, County Treasurer; Kathy Piekut, Chief Deputy County Treasurer; Glenn Cantrell, Investment Manager/Finance Manager; Priscilla Kirrin, Bookkeeping Supervisor/County Treasurer; Ofelia Gregoline, Executive Assistant/County Auditor; and Victoria Rivera, Assistant Financial Administrator/County Council member.

COUNTY RECORDER
LAKE COUNTY

COUNTY RECORDER
LAKE COUNTY
AUDIT RESULT AND COMMENT

BANK ACCOUNT RECONCILIATIONS AND REMITTANCES

A similar comment also appeared in 12 of the 14 prior reports, including the 3 most recent Reports B51083, B53069, and B56720.

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 treasury. Additional audit procedures were performed and determined there was an excess cash balance totaling \$61,603 that was not remitted to the County treasury.

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)

COUNTY RECORDER
LAKE COUNTY
EXIT CONFERENCE

The contents of this report were discussed on May 12, 2022, with Regina M. Pimentel, County Recorder.

The contents of this report were discussed on June 28, 2022, with John Petalas, County Auditor; Michael Repay, President of the Board of County Commissioners; Ajaz Mohammed, Director of Financial Operations; Jane Dudley, Chief Deputy County Auditor; Peggy Holinga Katona, County Treasurer; Kathy Piekut, Chief Deputy County Treasurer; Glenn Cantrell, Investment Manager/Finance Manager; Priscilla Kirrin, Bookkeeping Supervisor/County Treasurer; Ofelia Gregoline, Executive Assistant/County Auditor; and Victoria Rivera, Assistant Financial Administrator/County Council member.

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BOARD OF COUNTY COMMISSIONERS
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AUDIT RESULT AND COMMENT

CAPITAL ASSETS

A similar comment also appeared in prior Report B56720, entitled *FINANCIAL TRANSACTIONS AND REPORTING*.

Condition and Context

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. Additionally, 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 included a building not owned by the County. The financial statements and notes to the financial statements reported an overstated beginning balance of \$22,992,333 in construction in progress. This was due to an error in the prior audit period in which the financial statements and notes to the financial statements reported an increase in additions of \$22,992,333 for construction in progress, but the detailed capital asset listing did not include the increase and was not corrected by the County from the prior audit.

Furthermore, two of ten deletions tested were removed from the 2020 capital asset listing even though the assets were not disposed of until 2021.

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.

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 5-15-6-3 states:

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

BOARD OF COUNTY COMMISSIONERS
LAKE COUNTY
AUDIT RESULT AND COMMENT
(Continued)

- (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."

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)

CARES ACT FUND

Condition and Context

The County did not properly account for the Coronavirus Relief Fund (CRF) in accordance with State Examiner Directive 2020-3 (Directive).

The County received \$15,716,125 of CRF funding from Indiana Finance Authority (IFA) during 2020, of which \$15,296,702 was for public health and safety payroll costs and \$414,423 was for other expenses. The Board of County Commissioners adopted Resolution 20-08 on December 16, 2020, which stated: "a claim shall be created against the CFR grant fund, up to the payroll reimbursement amount, that Lake County determines shall be receipted to the general fund . . ."

1. Prior to the adoption of the Resolution, the County had transferred \$3,123,385 from the LC Coronavirus Relief Fund to other funds using journal entries; however, the County should have processed reversing entries as required by the Directive. The amounts receipted into the other funds by the journal entries were not supported and did not tie back to items requested for reimbursement.

Description	Payroll Related	Other Expenses	Totals
CFR Reimbursement Received Classified by purpose	\$ 15,296,702	\$ 419,423	\$ 15,716,125
Less: Amounts transferred to other funds in 2020	15,284	3,108,101	3,123,385
Less: Amounts transferred to other funds in 2021	<u>12,506,275</u>	<u>86,465</u>	<u>12,592,740</u>
CFR reimbursement (transferred) not transferred in accordance with the reimbursement request purpose	<u>\$ 2,775,143</u>	<u>\$ (2,775,143)</u>	<u>\$ -</u>

2. As of December 31, 2020, the LC Coronavirus Relief Fund had a balance of \$12,592,740, instead of a zero balance as required. On March 5, 2021, a journal entry, instead of a claim as noted in the Resolution was used to move \$12,506,275 to the General Fund and \$86,465 to the Community Corrections Fund. However, all reimbursements should have been claimed to the General Fund, which would have allowed the money to be expended for any general unit purpose.

BOARD OF COUNTY COMMISSIONERS
LAKE COUNTY
AUDIT RESULT AND COMMENT
(Continued)

Criteria

Public Health and Safety Payroll Costs

Transactions for public health and safety payroll costs must be accounted for through one of these two prescribed options.

Option One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. The reimbursed amount for public health and safety payroll costs originally incurred in the general fund (or other fund) will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the general fund (or other fund) cash balance and re-appropriate the general fund (or other fund) in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the general fund (or other fund), it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once option one is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

Option Two. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. A claim will be created against the separate CARES grant fund for the reimbursed amount in favor of the general fund. This claim must be supported by documentation of the public health and safety payroll costs that have been expensed from the general fund or other funds.

The amount of the claim will be receipted into the general fund cash balance. Normal appropriation procedures will apply to these funds.

Once option two is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. This option requires a resolution or ordinance as detailed in the memorandum *CARES Reimbursement of Public Health and Safety Payroll Costs, September 30, 2020.* . . .**

Reimbursed Costs Other than Public Health and Safety Payroll Costs

Transactions for other permitted costs reimbursed by IFA must be accounted for through one of the following prescribed frameworks.

Framework One. Reimbursements received from IFA shall be receipted into the separate CARES grant fund. Reimbursed disbursements originally incurred in another fund will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the fund cash balance and re-appropriate the fund in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the original fund, it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

BOARD OF COUNTY COMMISSIONERS
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(Continued)

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

Framework Two. If IFA has provided reimbursement based on unpaid invoices or purchase orders, then reimbursements received from IFA shall be receipted into the separate CARES grant fund. The expenditures to vendors will be made through the CARES grant fund and these expenditures must match the application made to IFA. If the actual invoice or invoices relating to a purchase order is less than the purchase order, then the difference in the money expended to the vendor and the amount received for the purchase order from IFA must be returned to IFA. The items on the invoice must match the items on the purchase order. All documentation must be maintained.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

Framework Three. If you have created a negative balance in your CARES fund based on expenditures made in anticipation of receipt of reimbursement for allowable expenditures where invoices have already been submitted to IFA then leave as is and receipt reimbursement when received, bringing the balance in the separate CARES grant fund to zero. Going forward, expend any anticipated allowable expenditures from a fund with an appropriation and follow framework one. If a negative balance in the CARES grant fund is not fully reimbursed, then the unreimbursed amount will require a reverse entry and posting of the expenditure to the general or other appropriate fund within an appropriated line item. (State Examiner Directive 2020-3)

BOARD OF COUNTY COMMISSIONERS
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EXIT CONFERENCE

The contents of this report were discussed on June 28, 2022, with Michael Repay, President of the Board of County Commissioners; John Petalas, County Auditor; Ajaz Mohammed, Director of Financial Operations; Jane Dudley, Chief Deputy County Auditor; Peggy Holinga Katona, County Treasurer; Kathy Piekut, Chief Deputy County Treasurer; Glenn Cantrell, Investment Manager/Finance Manager; Priscilla Kirrin, Bookkeeping Supervisor/County Treasurer; Ofelia Gregoline, Executive Assistant/County Auditor; and Victoria Rivera, Assistant Financial Administrator/County Council member.