

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF LAKE STATION

LAKE COUNTY, INDIANA

January 1, 2018 to December 31, 2021



FILED

12/06/2022

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Clerk-Treasurer:	
Audit Results and Comments:	
Internal Controls	6-7
Motor Vehicle Highway (MVH) - Restricted Fund	7-8
Fund Sources and Uses	8-9
Accounting for Coronavirus Relief Funds	9-10
Annual Financial Report	10
Subsequent Event - Utility Receipt Transactions	10-11
Official Response	12-14
Exit Conference	15
Redevelopment Commission:	
Audit Result and Comment:	
Redevelopment Tax Increment Financing (TIF)	18-19
Official Response	20-22
Exit Conference	23
City Court:	
Audit Results and Comments:	
Bank Account Reconciliations	26-27
Condition of Records	27
Official Response	28-29
Exit Conference	30

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Joe Castellano	01-01-18 to 05-04-18
	(Vacant)	05-05-18 to 06-10-18
	Brenda Samuels	06-11-18 to 12-31-22
Mayor	Christopher Anderson	01-01-18 to 12-31-19
	William Carroll	01-01-20 to 12-31-22
President of the Board of Public Works and Safety	Christopher Anderson	01-01-18 to 12-31-19
	William Carroll	01-01-20 to 12-31-22
President Pro Tempore of the Common Council	Ericka Castillo	01-01-18 to 12-31-18
	Carlos Luna	01-01-19 to 12-31-19
	Rick Long	01-01-20 to 12-31-20
	Neil Anderson	01-01-21 to 12-31-21
	Fred Williams	01-01-22 to 12-31-22



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE CITY OF LAKE STATION, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Lake Station (City), for the period from January 1, 2018 to December 31, 2021. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statements Audit Report of the City, which provides our opinions on the City's financial statements. This report may be found at www.in.gov/sboa/.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

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

Beth Kelley, CPA, CFE
Deputy State Examiner

November 22, 2022

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CLERK-TREASURER
CITY OF LAKE STATION

CLERK-TREASURER
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

The same comment also appeared in prior Report B51891.

Condition and Context

Internal control activities should be selected and developed at various levels to reduce risks of error and/or fraud of the financial statements. The City has not implemented a system of effective internal controls related to receipts, disbursements, and financial reporting. The failure to establish these internal controls enabled material misstatements to be undetected.

Receipts and Disbursements - Sale of City Water Utility

The City sold its water utility in October 2019 to Indiana American Water for \$20,680,000. At the closing of the sale of the water utility, \$10,241,098 in proceeds was disbursed for various closing costs as well as the payoff of the State Revolving Fund loans with the Indiana Finance Authority. However, the City only recorded and reported the net proceeds received of \$10,438,902 which resulted in an understatement of receipts and disbursements by \$10,241,098.

Audit adjustments were proposed, accepted by the City, and made to the financial statements.

Receipts - Utility

The City had not designed a process of review or oversight over utility receipts to ensure the accuracy, completeness, and timeliness of the collections received. One employee was responsible for reconciling collections, preparing the deposit, taking the deposit to the bank, and providing the collection information to the Clerk-Treasurer for receipting to the City's financial accounting system. In addition, the same employee recorded the online payments to customer accounts in the billing system.

Financial Reporting

The Clerk-Treasurer uploaded the financial information for the Annual Financial Report (AFR) data directly into the Indiana Gateway for Government Units (Gateway) financial reporting system, which was the source of the financial statements. After the information was uploaded to Gateway, the City's financial consultant reviewed the information and made corrections directly in Gateway. The Clerk-Treasurer then submitted the AFR. Evidence of the review or oversight process to ensure the accuracy and completeness of the submitted AFR was not provided.

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:

CLERK-TREASURER
CITY OF LAKE STATION
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. . . ."

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

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](#)."

MOTOR VEHICLE HIGHWAY (MVH) - RESTRICTED FUND

Condition and Context

The City created a Motor Vehicle Highway (MVH) Restricted sub-fund within the MVH fund and recorded 50 percent of the state motor vehicle highway distributions to the sub-fund as required. However, the City disbursed \$33,150 for a dump truck from the MVH Restricted fund. The truck is primarily used for maintenance of the City's roadways, such as pothole repair. This disbursement was not for the construction, reconstruction, and preservation of the City's highways.

In addition, the City erroneously receipted \$75,006 of the MVH local property and license excise taxes received in 2021 into the MVH Restricted fund instead of the Motor Vehicle Highway fund.

Criteria

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

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

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted.

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

The political subdivision, by ordinance or resolution, may elect to allocate more than fifty percent (50%) of the distributions to MVH Restricted. During the same fiscal year, the political subdivision may transfer, by ordinance or resolution, the amount allocated in excess of the 50% requirement from MVH Restricted to MVH. ***In no event can any transfers from MVH Restricted to MVH reduce the fiscal year distributions from the State Motor Vehicle Highway Account below 50% requirement for MVH Restricted.***

Any amounts allocated in excess of the required 50% of distributions which remain in MVH Restricted at the end of the fiscal year must remain in MVH Restricted until expended for construction, reconstruction, or preservation. . . . (State Examiner Directive 2018-2)

FUND SOURCES AND USES

The same comment appeared in prior Reports B44993, B44996, and B51891.

Condition and Context

In 2018 and 2019, the City disbursed a total of \$79,720 for public safety equipment leases from the Water Utility Operating, Refuse Department, and Sewage funds which is not an allowable use of these funds.

The primary funds that paid for the various liability insurance coverage for the City were General Fund, Motor Vehicle Highway, Local Road and Street (LRS), Park and Recreation Fund, Refuse Department, Stormwater MS4, LOIT Safety, Employees Health Insurance Fund, Sewage, Sanitary District Operating, and Water Utility Operating. Supporting documentation as to how the insurance premium payments were allocated to the funds was not provided.

In addition, the payment for liability insurance from the LRS fund did not comply with the statutory uses for the fund as set forth in Indiana Code 8-14-2-5. Payments of \$33,844, \$25,000, \$48,014, and \$70,000 were made from the LRS fund in 2018, 2019, 2020, and 2021, respectively.

Criteria

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

Indiana Code 8-14-2-5 states:

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

- (1) engineering, land acquisition, construction, resurfacing, maintenance, restoration, or rehabilitation of both local and arterial road and street systems;
- (2) the payment of principal and interest on bonds sold primarily to finance road, street, or thoroughfare projects;
- (3) any local costs required to undertake a recreational or reservoir road project under IC 8-23-5; or
- (4) the purchase, rental or repair of highway equipment."

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

Our audit position is the legislative intent seems to be for local road and street account distributions to be used only for direct expenses incurred in the construction, reconstruction, or maintenance of arterial and local roads and streets in cities and towns. This would prohibit the use of such funds for building buildings or for such indirect costs as administrative salaries or supplies, goods, or materials not used directly for one of the aforementioned purposes. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2021)

ACCOUNTING FOR CORONAVIRUS RELIEF FUNDS

Condition and Context

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

In 2020, the City receipted the Indiana Finance Authority reimbursements for payroll totaling \$384,767 into the CARES Act - COVID 19 fund (CARES fund). Of this amount, \$323,462 in expenditures were properly reversed from the General Fund and moved to the CARES fund. Of the remaining \$61,305 of the reimbursement in the CARES fund, \$48,375 was used to offset non-payroll expenses spent out of the CARES fund prior to the Directive. After the Directive was issued, the remaining \$12,930 was expended directly out of the CARES fund. The \$12,903 should have been expended directly from either the general fund or another fund that was appropriated for the purposes of the expenditures.

The City did not have a CRF funded year-end balance in the CARES Fund.

Criteria

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.

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

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.** . . . (State Examiner Directive 2020-3)

ANNUAL FINANCIAL REPORT

Condition and Context

Financial and supplementary information are required to be reported annually on the Indiana Gateway for Government Units (Gateway) financial reporting system. The City was not in compliance as follows:

Combining Schedules

The City sold its water utility in October 2019 to Indiana American Water for \$20,680,000. At the closing of the sale of the water utility, \$10,241,098 in proceeds was disbursed for various closing costs as well as the payoff of the State Revolving Fund loans with the Indiana Finance Authority. However, the City only recorded and reported the net proceeds received of \$10,438,902 which resulted in an understatement of receipts and disbursements by \$10,241,098.

Audit adjustments were proposed, accepted by the City, and made to the combining schedules.

Schedule of Payables and Receivables

The City had payables and receivables at year end, but failed to report any payables and receivables on Gateway. The City approved the omission of the Schedule of Payables and Receivables from the Financial Statements Audit Report.

Criteria

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](#)."

SUBSEQUENT EVENT - UTILITY RECEIPT TRANSACTIONS

Condition and Context

The City's Utility Department used a separate utility billing software system to calculate, bill, and record customer payments for the Refuse Department and Sanitary District. A Daily Cash Receipts report was to be provided by the utility department to the Clerk-Treasurer's office to ensure the financial activity is properly and timely recorded to the City's financial accounting system and reconciled to the bank activity.

Beginning in July 2022, the Clerk-Treasurer stopped receipting utility collections to the ledger since the Daily Cash Receipts reports provided could not be reconciled to the bank activity.

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

As a result, as of October 31, 2022, the Refuse Department and Sanitary District Operating Funds had overdrawn cash balances of \$226,546 and \$642,050, respectively.

Criteria

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



1969 Central Ave. Lake Station, IN 46405

December 2, 2022

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302 West Washington Street, Room E418
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OFFICIAL RESPONSE FOR 2018-2021

1) INTERNAL CONTROL

A) Receipts and Disbursements - Sale of City Water Utility

This was an oversight which has already been corrected in the Financial Statement. We understand there will be another individual in my department who will review before it is submitted.

B) Receipts - Utility

We will work towards having another individual in that department review all transactions to insure proper separation of duties and oversight.

C) Financial Reporting

Now that this has been brought to our attention, we understand another individual in my department will review before it is submitted.

2) MOTOR VEHICLE HIGHWAY (MVH) RESTRICTED FUND

A) The vehicle purchase was thought to be considered construction, reconstruction, and preservation of the City's highways since it was for potholes repair. Being advised that is not the sole purpose of the vehicle, we will be more diligent on what is paid from this Fund.

B) Moving forward, we will double check all MVH payments for property & license excise tax before posting to insure they are posted to the correct Fund.

3) FUND SOURCES AND USES

A) We will closely monitor future equipment leases to insure they are paid from the correct Funds.

B) We will review more closely the insurance billings to insure they have the proper documentation to support paying from the Fund they are being paid from.

C) We were unaware insurance could not be paid from the Local Road Fund even though appropriated and will make sure this doesn't happen in the future.

4) ACCOUNTING FOR CORONAVIRUS RELIEF FUNDS

Due to all the continuous changes in the State Examiner Directives, we felt we had followed the correct process. Now that the pandemic is under control, and the directives are much clearer, they will be followed, and we feel there will be no issues moving forward.

5) ANNUAL FINANCIAL REPORT

A) We now understand the full amount of the sale should have been receipted in and has been corrected in our Financial Statement.

B) The City has never had payables at year end due to having a Special Board of Works meeting to pay all outstanding bills. We will work with the Utility department to obtain a report of all receivables billed at year end, so they can be properly documented.

6) SUBSEQUENT EVENT - UTILITY RECEIPT TRANSACTIONS

The Utility Department is investing in new software in the hopes it will be able to provide the correct and detailed documentation needed to post receipts and balance the bank reconciliations.

7) REDEVELOPMENT TAX INCREMENT FINANCING (TIF)

We will review all payables being posted to the Redevelopment General Fund and Allocation Fund to insure they are being paid from the correct Fund. In addition, we will make sure to more clearly state on each payable information that provides the reason we feel it is the correct Fund.

8) BANK ACCOUNT RECONCILIATIONS (COURT)

Court is submitting their response separately.

9) CONDITION OF RECORDS (COURT)

Court is submitting their response separately.



Clerk Treasurer, Brenda Samuels



Mayor, William Carroll

CLERK-TREASURER
CITY OF LAKE STATION
EXIT CONFERENCE

The contents of this report were discussed on November 22, 2022, with Brenda Samuels, Clerk-Treasurer; William Carroll, Mayor; Richard Long, Common Council member; Adrian Vera, Chief of Staff; James B. Meyer, Attorney; Amy Byers, Chief Deputy Clerk-Treasurer; and Jack Greenberg, City Consultant.

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REDEVELOPMENT COMMISSION
CITY OF LAKE STATION

REDEVELOPMENT COMMISSION
CITY OF LAKE STATION
AUDIT RESULT AND COMMENT

REDEVELOPMENT TAX INCREMENT FINANCING (TIF)

Condition and Context

The establishment of a Redevelopment General Fund is authorized by Indiana Code 36-7-14-28(c). A Redevelopment Commission has the duties set forth in Indiana Code 36-7-14-11, which provides for the investigation, selection, acquisition, development, and disposal of property in "areas needing redevelopment." The powers granted to a Redevelopment Commission in Indiana Code 36-7-14-12.2 allow the Redevelopment Commission to develop property in the areas needing redevelopment and to carry out other activities "for redevelopment purposes." "Redevelopment" includes activities contained in Indiana Code 36-7-1-18.

In 2021, the City established the Redevelopment General fund as well as a Tax Increment Financing (TIF) allocation area and created the Lake Station Allocation Area (Allocation Area) fund. The Allocation Area fund began receiving TIF distributions in 2021.

The expenses noted below from the Lake Station Allocation Area fund or from the Redevelopment General fund which were funded by a transfer from TIF distributions, were not within the restricted uses authorized in Indiana Code 36-7-14-39(b)(3).

1. Financial advisory and general consultant services to the Redevelopment Commission for \$6,393.
2. Legal services for various invoices and deeds for \$7,066; however, we could not determine if the work was performed for projects within the allocation area.
3. Maintenance services for \$3,810 in which one of the three locations on the invoice did not fall within the allocation area map provided.

Criteria

Indiana Code 36-7-14-39(b)(3) states in part:

". . . property tax proceeds . . . shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following:

(A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds which are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.

(B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area.

(C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under section 27 of this chapter.

(D) Pay the principal of and interest on bonds issued by the unit to pay for local public improvements that are physically located in or physically connected to that allocation area.

(E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.

REDEVELOPMENT COMMISSION
CITY OF LAKE STATION
AUDIT RESULT AND COMMENT
(Continued)

(F) Make payments on leases payable from allocated tax proceeds in that allocation area under section 25.2 of this chapter.

(G) Reimburse the unit for expenditures made by it for local public improvements (which include buildings, parking facilities, and other items described in section 25.1(a) of this chapter) that are physically located in or physically connected to that allocation area.

(H) Reimburse the unit for rentals paid by it for a building or parking facility that is physically located in or physically connected to that allocation area under any lease entered into under IC 36-1-10.

(I) For property taxes first due and payable before January 1, 2009, pay all or a part of a property tax replacement credit to taxpayers in an allocation area as determined by the redevelopment commission. This credit equals the amount determined under the following STEPS for each taxpayer in a taxing district (as defined in IC 6-1.1-1-20) that contains all or part of the allocation area: . . .

(J) Pay expenses incurred by the redevelopment commission for local public improvements that are in the allocation area or serving the allocation area. Public improvements include buildings, parking facilities, and other items described in section 25.1(a) of this chapter.

(K) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located:

- (i) in the allocation area; and
- (ii) (ii) on a parcel of real property that has been classified as industrial property under the rules of the department of local government finance . . .

(L) Pay the costs of carrying out an eligible efficiency project (as defined in IC 36-9-41-1.5) within the unit that established the redevelopment commission. . . .

(M) Expend money and provide financial assistance as authorized in section 12.2(a)(27) of this chapter.

The allocation fund may not be used for operating expenses of the commission."

The uses of TIF funds are restricted to those set forth in the Indiana Code. The power of a redevelopment commission to expend such funds is limited to the express statutory powers as set forth in Indiana Code 36-7-14. The use of TIF funds for ongoing maintenance of redeveloped property is not an expressly or impliedly permitted use, except as provided in Indiana Code 36-7-1-18(7) for repairing and maintaining buildings acquired before redevelopment is complete. (Redevelopment Commission of the Town of Munster, Indiana, v. Indiana State Board of Accounts and Paul D. Joyce, State Examiner of State Board of Accounts, 28 N.E.3d 272 (Ind. App., 2015) trans. denied, 34 N.E.3d 251)



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December 2, 2022

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OFFICIAL RESPONSE FOR 2018-2021

1) INTERNAL CONTROL

A) Receipts and Disbursements - Sale of City Water Utility

This was an oversight which has already been corrected in the Financial Statement. We understand there will be another individual in my department who will review before it is submitted.

B) Receipts - Utility

We will work towards having another individual in that department review all transactions to insure proper separation of duties and oversight.

C) Financial Reporting

Now that this has been brought to our attention, we understand another individual in my department will review before it is submitted.

2) MOTOR VEHICLE HIGHWAY (MVH) RESTRICTED FUND

A) The vehicle purchase was thought to be considered construction, reconstruction, and preservation of the City's highways since it was for potholes repair. Being advised that is not the sole purpose of the vehicle, we will be more diligent on what is paid from this Fund.

B) Moving forward, we will double check all MVH payments for property & license excise tax before posting to insure they are posted to the correct Fund.

3) FUND SOURCES AND USES

A) We will closely monitor future equipment leases to insure they are paid from the correct Funds.

B) We will review more closely the insurance billings to insure they have the proper documentation to support paying from the Fund they are being paid from.

C) We were unaware insurance could not be paid from the Local Road Fund even though appropriated and will make sure this doesn't happen in the future.

4) ACCOUNTING FOR CORONAVIRUS RELIEF FUNDS

Due to all the continuous changes in the State Examiner Directives, we felt we had followed the correct process. Now that the pandemic is under control, and the directives are much clearer, they will be followed, and we feel there will be no issues moving forward.

5) ANNUAL FINANCIAL REPORT

A) We now understand the full amount of the sale should have been receipted in and has been corrected in our Financial Statement.

B) The City has never had payables at year end due to having a Special Board of Works meeting to pay all outstanding bills. We will work with the Utility department to obtain a report of all receivables billed at year end, so they can be properly documented.

6) SUBSEQUENT EVENT - UTILITY RECEIPT TRANSACTIONS

The Utility Department is investing in new software in the hopes it will be able to provide the correct and detailed documentation needed to post receipts and balance the bank reconciliations.

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We will review all payables being posted to the Redevelopment General Fund and Allocation Fund to insure they are being paid from the correct Fund. In addition, we will make sure to more clearly state on each payable information that provides the reason we feel it is the correct Fund.

8) BANK ACCOUNT RECONCILIATIONS (COURT)

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9) CONDITION OF RECORDS (COURT)

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Clerk Treasurer, Brenda Samuels



Mayor, William Carroll

REDEVELOPMENT COMMISSION
CITY OF LAKE STATION
EXIT CONFERENCE

The contents of this report were discussed on November 22, 2022, with Brenda Samuels, Clerk-Treasurer; William Carroll, Mayor; Richard Long, Common Council member; Adrian Vera, Chief of Staff; James B. Meyer, Attorney; Amy Byers, Chief Deputy Clerk-Treasurer; and Jack Greenberg, City Consultant.

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CITY COURT
CITY OF LAKE STATION

CITY COURT
CITY OF LAKE STATION
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

A similar comment also appeared in seven prior reports, including the three most recent Reports B44994, B44996, and B51891.

Condition and Context

The City Court had not designed or implemented internal controls over the City Court's reconciliation of bank balances to ledger balances. One individual was responsible for preparing the reconciliations of the accounting record balance to the bank depository balances without an oversight or review process in place to ensure the accuracy and timeliness of the reconciliations.

The City Court previously used Court View (a cash management and financial software program) to process and post the City Court's financial transactions. In 2020, the City Court converted to a new software system. The City Court opened a new bank account to account for the activities of the new software system. Transactions after the conversion were accounted for through the new software system and into the new bank account. Monthly reconciliations were completed for the new bank account to the new software system balances.

However, a balance remained in the old bank account after the conversion for trust balances that had not yet been moved into the new software system from the Court View system. Prior audit reports noted that City Court personnel had not reconciled the record balance to the depository balance since September 2007. Monthly reconciliations were not provided for the Court View bank account, which held a balance of \$200,389 as of December 31, 2021.

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. . . ."

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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. . . ."

CITY COURT
CITY OF LAKE STATION
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."

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

CONDITION OF RECORDS

Condition and Context

The City Court previously used Court View (a cash management and financial software program) to process and post the City Court's financial transactions. In 2020, the City Court converted to a new software system. At December 31, 2021, a \$200,389 balance remained in the old bank account after the conversion for trust balances that had not yet been moved into the new software system from the Court View system.

The City Court failed to obtain and retain reports of the trust funds on hand from the Court View system prior to the conversion. After the conversion occurred, the City Court lost access to the Court View system completely. As a result, the City Court does not have access to a report that details trust balances from Court View which would support the amounts held in the Court View bank account.

Due to the failure to retain records, we were unable to perform audit procedures to determine if the amounts held in trust were in compliance with state statutes.

Criteria

Each city and town court is required to use official records and forms that are designated by the legislature or prescribed or approved by the State Board of Accounts or the Indiana Court Services office of the Supreme Court. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 1)

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



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

To: Paul D. Joyce, State Examiner

From: Joshua M. Matejczyk, Judge of the Lake Station City Court

RE: City Court, City of Lake Station Audit Results – OFFICIAL RESPONSE
Report Period Beginning: January 1, 2018
Report Period Ending: December 31, 2021

Audit Results:

Bank Account Reconciliations

In 2020, the Court converted from the Court View case management system to the Odyssey case management system and opened a new bank account to account for the new system. While the Odyssey transactions were properly reconciled with the new account, the audit found that the old account used for the Court View system was not properly reconciled.

Condition of Records

The audit found that the Court failed to retain financial reports from the Court View system after the conversion to Odyssey. These reports were lost when Court View was shut down. Due to the failure to retain these records, the auditors were unable to perform an audit on the old bank account that was linked to Court View.

Response:

Bank Account Reconciliations

In 2020, the Court was required by the State to switch from the Court View case management system to the new Odyssey case management system. As part of the conversion, it was recommended by SBOA and the Office of Court Technology to open a new bank account in part

due to the reconciliation issues in the prior account stemming from incorrect reconciliation procedures dating back several administrations. The Court accepted that recommendation, and created a new account to begin using with the new Odyssey system. The intention at that point was to gradually move funds from the old account to the new and reconciling them through both Court View and Odyssey reports. Unfortunately, shortly after the conversion to Odyssey, the division of the Lake County government responsible for maintaining Court View permanently deactivated the entire Court View system without notifying us. We only became aware of the deactivation when we attempted to log in to that system. Due to their failure to notify us of the deactivation, we were unable to retrieve the necessary financial reports to properly reconcile the old bank account as we transferred those funds in to the new account. We will be attempting to reconstruct the information that should be in these reports by way of reviewing the hard files, and then using that information to reconcile the old account. Without being able to access the actual reports, however, we cannot estimate a time frame that this will be complete in because it will be much more labor intensive.

Condition of Records

Similarly, with the unannounced deactivation of Court View, we were unable to produce all of the reports needed to support and reconcile the monies held in trust in the older bank account. Had we been informed of the impending deactivation, we would have pre-emptively run the reports needed. Since the system was permanently deactivated, we now have no way to producing those reports. As with the bank account reconciliation issues, we will be attempting to reproduce the information in those reports based on documentation in the paper files. We cannot provide an estimated timeline for when this will be complete due to the volume of cases that will need to be reviewed and the labor-intensive nature of this endeavor.

CITY COURT
CITY OF LAKE STATION
EXIT CONFERENCE

The contents of this report were discussed on November 22, 2022, with Joshua Matejczyk, City Judge, and Sally Baran, Deputy Court Clerk.

The contents of this report were discussed on November 22, 2022, with Brenda Samuels, Clerk-Treasurer; William Carroll, Mayor; Richard Long, Common Council member; Adrian Vera, Chief of Staff; James B. Meyer, Attorney; Amy Byers, Chief Deputy Clerk-Treasurer; and Jack Greenberg, City Consultant.