

B27797

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2765**

EXAMINATION REPORT  
OF  
TOWN OF MUNSTER  
LAKE COUNTY, INDIANA  
January 1, 2005 to December 31, 2005



**FILED**  
08/30/2006



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OFFICIALS

Office

Official

Term

Clerk-Treasurer

David F. Shafer

01-01-04 to 12-31-07

President of the Town Council

John W. Edington  
Michael Mellon

01-01-05 to 12-31-05  
01-01-06 to 12-31-06



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF MUNSTER, LAKE COUNTY, INDIANA

We have examined the schedule of receipts, disbursements, and cash and investment balances of the Town of Munster (Town), for the period of January 1, 2005 to December 31, 2005. The Town's management is responsible for the schedule. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the schedule of receipts, disbursements, and cash and investment balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents fairly, in all material respects, the cash transactions of the Town for the year ended December 31, 2005, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

STATE BOARD OF ACCOUNTS

July 17, 2006

TOWN OF MUNSTER  
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES  
As Of And For The Year Ended December 31, 2005

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
<b>Governmental Funds:</b>				
General	\$ 129,749	\$ 13,601,876	\$ 11,975,475	\$ 1,756,150
Motor Vehicle Highway	9,613	4,438,064	4,009,790	437,887
Local Road and Street	30,811	278,249	270,500	38,560
Park and Recreation	6,089	2,235,204	2,005,652	235,641
Recreation Programming	11,023	562,444	500,142	73,325
Donation	28,757	10,215	16,821	22,151
Economic Development	169,398	22,547	18,000	173,945
Federal Grants	2,619	56,182	57,715	1,086
Law Enforcement Continuing Education	4,451	40,768	24,999	20,220
State Grants	-	21,164	21,164	-
Technology Fund	21,293	271,995	243,154	50,134
Sewer Maintenance	5,110	2,235,618	2,092,665	148,063
Special Asset Forfeiture Nonreverting	17,423	6,705	6,502	17,626
Solid Waste Management	1,883,803	2,254,525	3,677,420	460,908
Pool Nonreverting	56,374	545,681	534,480	67,575
Park Donation	15,390	17,999	11,118	22,271
Park Land Escrow	90,428	-	-	90,428
Barrett Law	2,352	-	-	2,352
Municipal Bond and Interest	158,211	3,717,820	2,661,356	1,214,675
Park Bond and Interest	135,230	1,603,377	1,313,475	425,132
Municipal Complex Fund	250,498	2,373,853	1,800,014	824,337
Cumulative Capital Improvement	87	70,597	59,286	11,398
Cumulative Capital Development	2,264	590,605	495,334	97,535
Municipal Bond Proceeds	1,598,772	5,082,313	4,029,490	2,651,595
Barrett Bond Proceeds	102,295	11,795	14	114,076
Park Bond Proceeds	1,253,998	3,145,301	1,985,095	2,414,204
Riverboat	481,194	905,609	1,034,369	352,434
<b>Proprietary Funds:</b>				
Water Utility - Operating	97,761	3,431,677	3,108,314	421,124
Water Utility - Bond and Interest	99,365	399,578	365,190	133,753
Water Utility - Depreciation	94,293	100,634	179,025	15,902
Water Utility - Customer Deposit	321,464	16,672	9,149	328,987
Vehicle/Equipment Purchase	88,106	362,318	307,587	142,837
Medical/Life Insurance	336,953	1,355,591	1,429,513	263,031
Liability Insurance	47,800	982,930	1,030,264	466
<b>Fiduciary Funds:</b>				
Police Officers' Pension	488,579	412,826	575,596	325,809
Payroll	231,639	9,578,596	9,599,155	211,080
Insurance Payment	-	1,425,676	1,425,676	-
Intergovernmental Collections	275,483	1,650,965	1,643,366	283,082
Cable TV	89,958	7,124	-	97,082
Escrow	490,013	69,172	44,086	515,099
<b>Totals</b>	<b>\$ 9,128,646</b>	<b>\$ 63,894,265</b>	<b>\$ 58,560,951</b>	<b>\$ 14,461,960</b>

The accompanying notes are an integral part of the schedules.

TOWN OF MUNSTER  
NOTES TO SCHEDULE

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety, health and social services, culture and recreation, water, and general administrative services.

Note 2. Fund Accounting

The Town uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Town in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

TOWN OF MUNSTER  
NOTES TO SCHEDULE  
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The Town contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

Note 7. Long-Term Debt

The Town has entered into various debts such as general obligation bonds for equipment, road resurfacing and park improvements, water refunding revenue bonds, and capital leases for town hall, community pool and equipment. The outstanding principal at December 31, 2005, was \$6,720,000, \$535,000, and \$2,331,102, respectively.

Note 8. Subsequent Events

On January 23, 2006, the Town Council authorized the purchase of an American LaFrance fire pumper for a net price of \$258,920.

On April 24, 2006, the Town Council adopted resolution 1775 approving the financing of a three year water meter replacement program through a lease program. The resolution authorized the borrowing of \$500,000 a year, for the years 2006, 2007, and 2008, with repayment to begin in 2007 and be completed in 2011.

TOWN OF MUNSTER  
NOTES TO SCHEDULE  
(Continued)

On December 5, 2005, the Town entered into a lease with the Munster Municipal Center Corporation (Corporation) for the development of Centennial Park (which includes a golf course, club house and facilities and improvements). The Corporation sold mortgage bonds of \$14,000,000 on May 25, 2006, to fund the development of the park. Payments under this lease will not begin until June 30, 2007, or completion of the park improvements, whichever is later.

On June 15, 2006, the Town issued Tax Anticipation Warrants totaling \$1,895,000 at net interest rate of 4.38%, which will mature on December 29, 2006.

Property tax rates and levies were not established by the Indiana Department of Local Government Finance as of February 15, 2006, as required by statute, due to the continued delay caused by the reassessment of Lake County. As of July 6, 2006, the 2005 pay 2006 property tax bills have not been mailed out.

TOWN OF MUNSTER  
EXAMINATION RESULTS AND COMMENTS

CUSTOMER DEPOSITS REGISTER

The Town of Munster uses a spreadsheet for its Customer Deposit Register, which had not been approved for use in lieu of prescribed form 310. The ability to alter the spreadsheet without creating an audit trail weakens internal controls over the customer deposits. The refunds tested were not removed from the register causing the total amount of the register to be inaccurate. Also, the Customer Deposits Register ending balance does not reconcile to the ending cash balance in Fund 604 Customer Deposits.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS

The Town and the Water Utility do not maintain sufficient detailed records of capital assets. The amounts reported in the annual financial report (CTAR-1), as prepared by the Town, do not contain all assets previously purchased by the Town prior to January 1, 2005. Effective in 2005, the costs of all capital assets acquisitions for the year are included in the CTAR-1. The beginning capital asset balances in the CTAR-1, which agrees to the prior year's CTAR ending balances, only reports assets purchased from three of the town funds and excludes assets purchased from any other funds of the Town. Therefore, records classifying and summarizing the Town's and Utility's capital assets are incomplete. Additionally, the totals in the CTAR-1 include asset values which are below the threshold set by the Town's capital asset policy.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger form. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

LACK OF INTERNAL CONTROLS - PARK DEPARTMENT

The Park Department uses cash registers at the park's pool and the concession stand. We reviewed the manual register summaries, daily cash reports, drawer balance reports and register "z" tapes over a period of time. Over this period, we noted that the register generated reports and tapes did not balance with the manual summaries. Controls for receipts are ineffective in the area of exchanging cash during transactions, and resulted in daily cash overages and shortages.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

TOWN OF MUNSTER  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

HANDGUN PERMIT FEES – POLICE DEPARTMENT

The Town adopted Ordinance 1258 on October 25, 2004, increasing the handgun application fee from \$10 to \$20 per application. This was not in compliance with state statute. On June 13, 2005, the Town adopted Ordinance 1289 to correct the handgun application fee. However, the \$20 fee is still being charged by the Police Department to handgun applicants.

Indiana Code 35-47-2-3(b) states in part: "The law enforcement agency which accepts an application for a handgun license shall collect a ten dollar (\$10) application fee, five dollars (\$5) of which shall be refunded if the license is not issued."

PHOTO COPY FEES – POLICE DEPARTMENT

In December 2004, the Police Department's fee for photo copies of offense reports and copies of tickets were raised, by ordinance, to \$5. On June 13, 2005, the Town passed Ordinance 1289 to correct the fee to actual copying costs. However, the \$5 fee is still being charged.

A certification, copy, or facsimile transmission fee set by ordinance may not exceed the actual cost or certifying, copying or facsimile transmission of the document. Actual cost does not include labor costs or overhead cost. (IC 5-14-3-8) (Cities and Towns Bulletin and Uniform Compliance Guidelines, June 1999)

MOVING VIOLATIONS - POLICE DEPARTMENT

The Town's municipal code, Chapter 54, Article III, deals with operation of vehicles and regulating traffic. Ordinance 988 established a driver education program. Information from the Police Department noted that it is for first time violators and is applicable to drivers who have been issued a local ordinance violation for a moving violation. The fee charged to attend the program, per ordinance 1268, is \$175. If the violator pays the fee for the course and successfully completes the driver education course, the charges shall be dismissed. If the violator does not qualify for or complete the course, then the matter is referred to the County Court. As a result, most violations are handled locally, as opposed to being prosecuted through the County Court system, and no court costs are assessed or remitted to the County Clerk.

Indiana Code 36-1-6-3 states: "(a) Certain ordinances may be enforced by a municipal corporation without proceeding in court through:

- (1) an admission of violation before the violations clerk under IC 33-6-3; or
- (2) administrative enforcement under section 9 of this chapter.

(b) Except as provided in subsection (a), a proceeding to enforce an ordinance must be brought in accordance with IC 34-28-5, section 4 of this chapter, or both.

(c) An ordinance defining a moving traffic violation may not be enforced under IC 33-6-3 and must be enforced in accordance with IC 34-28-5."

TOWN OF MUNSTER  
EXAMINATION RESULTS AND COMMENTS  
(Continued)

An ordinance defining a moving traffic violation may not be enforced under IC 33-36 and must be enforced in accordance with IC 34-28-5 which requires such cases to be heard in any circuit, superior, county, city or town court or traffic violations bureau designated by these courts (IC 36-1-6-3). (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2004)

Indiana Code 34-28-5-8 states in part: "The violations clerk or deputy violations clerk shall:

- (2) issue receipts and account for any judgments (including costs) collected; and
- (3) pay the judgments (including costs) collected to the appropriate unit of government as provided by law."

TOWN OF MUNSTER  
EXIT CONFERENCE

The contents of this report were discussed on July 20, 2006, with Michael Mellon, President of the Town Council; David F. Shafer, Clerk-Treasurer; and Thomas F. DeGuilio, Town Manager. The official response has been made a part of this report and may be found on pages 12 through 14.



COPY

August 2, 2006

Mr. Bruce A. Hartman, CPA, State Examiner  
Indiana State Board of Accounts  
302 West Washington Street, Room E418  
Indianapolis, Indiana 46204

Re: Town of Munster  
Examination for the Year 2005  
OFFICIAL RESPONSE

Dear Mr. Hartman:

Following are our responses to comments resulting from an examination of the Town of Munster for the year ending December 31, 2005.

CUSTOMER DEPOSITS REGISTER

The State Board of Accounts suggested improvements to an Excel spreadsheet being used as a water utility customer deposit register in lieu of prescribed form 314.

Response: The Water Utility has been unable to identify adequate software at a reasonable cost for keeping the customer deposit register in conformity with State Board of Accounts requirements. We emphasize that no funds have been lost with the current system. No deposit register is without the ability to be compromised. We will revert to using the prescribed paper system by the end of 2006.

CAPITAL ASSET RECORDS

The State Board of Accounts observed that the Town and its Water Utility do not maintain sufficiently detailed records of capital assets.



Response: We concur. As the State Board of Accounts is aware, the Town engaged the services of an independent accounting firm in 2004 to establish detailed records of its capital assets. Unfortunately, the accounting firm under performed and was dismissed. The Town intends to seek the services of a different firm to assist in the efforts to comply in all regards; however, due to the delays in receiving property tax distributions from the County, the Town lacks sufficient funds to cure this continued non-compliance at this time. We will resume our efforts in the next budget year.

#### VEHICLE USAGE

The State Board of Accounts observed that mileage records for take-home vehicles were not maintained as required by the Town's vehicle policy: "Under current IRS Regulations, the Town Manager, Director of Parks & Recreation, Director of Operations, and the Town Engineer must maintain mileage records for tax purposes."

Response: The three affected employees presented mileage logs on the day of or shortly after the exit conference.

#### LACK OF INTERNAL CONTROLS – PARK DEPARTMENT

The State Board of Accounts found shortcomings in the Park Department's use of cash registers at the swimming pool and concession stand.

Response: We concur. Immediate corrective measures have been taken. A training session will be conducted at the start of next year's swimming season.

#### HANDGUN PERMIT FEES – POLICE DEPARTMENT

The State Board of Accounts determined that although the handgun fee was changed by ordinance to comply with statute, clerical personnel continued to collect the fee that exceeds the statutory limit.

Response: We concur. Affected personnel have been re-instructed.

PHOTO COPY FEES – POLICE DEPARTMENT

The State Board of Accounts determined that although the copy fees were changed by ordinance to comply with statute, clerical personnel continued to collect the fees that exceed the statutory limit.

Response: We concur. Affected personnel have been re-instructed.

MOVING VIOLATIONS – POLICE DEPARTMENT

The State Board of Accounts determined that the Munster Driver Education Program was not established properly.

Response: This matter was first brought to our attention in 2005 and is being repeated this year. The Munster defensive driving school commenced operation in 1993 after discussions with Judge Bernard Carter of the Lake County Court Division III. It is our understanding that he approved the operation; however, documentation of his approval either was lost or never existed. Munster Driver Education Program (“MDEP”), our name for the defensive driving school, was established with similar procedures as the defensive driving school operated by the Crown Point Court system at the time, including the use of police officers certified by the State for defensive driving instruction. MDEP has been in operation continuously since 1993, and fees were initiated and revised from time to time by local ordinances. The State Board of Accounts routinely examines our fee ordinance, but did not comment on MDEP until 2005. MDEP has served as a valuable public education program. Residents of the Town of Munster and the motoring public as a whole have benefited from MDEP. Nevertheless, rather than be confronted with additional and continuing audit comments, the Town is in the process of terminating this program unless an alternative program acceptable to your department is found.

Thank you for considering our position.

Sincerely,



David F. Shafer, IAMC, CMC  
Clerk-Treasurer, Town of Munster