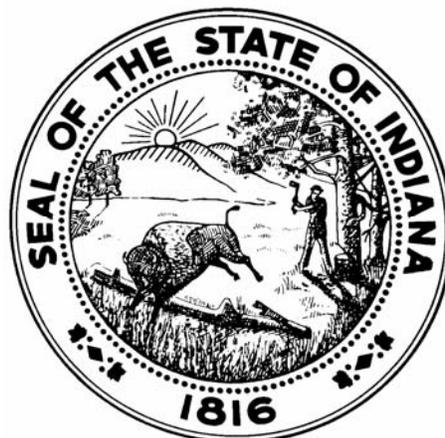


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SPECIAL INVESTIGATIVE REPORT
OF

CLERK-TREASURER'S OFFICE
TOWN OF MERRILLVILLE
LAKE COUNTY, INDIANA

January 1, 2000 to July 17, 2007



FILED
10/19/2007

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TOWN OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	John E. Petalas	01-01-00 to 11-18-05
	Rosemary Barath (Interim)	11-19-05 to 11-27-05
	Rose Ann Antich	11-28-05 to 12-31-07
President of the Town Council	Richard Bella	01-01-00 to 12-31-00
	Archie N. Owen	01-01-01 to 12-31-01
	David Uzelac	01-01-02 to 12-31-02
	David Mirich	01-01-03 to 12-31-03
	Joseph D. Shudick, Jr.	01-01-04 to 12-31-04
	Ronald J. Widing	01-01-05 to 12-31-05
	Richard Hardaway	01-01-06 to 12-31-06
Shawn Pettit	01-01-07 to 12-31-07	



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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TO: THE OFFICIALS OF TOWN OF MERRILLVILLE, LAKE COUNTY

We have examined the receipt and deposit records of the Clerk-Treasurer's Office for the period from January 1, 2000 to July 17, 2007, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Examination Results and Comments. The financial transactions of this office are reflected in the Annual or Examination Reports of the Town of Merrillville, Lake County, for the years 2000 through 2006.

STATE BOARD OF ACCOUNTS

September 5, 2007

CLERK-TREASURER'S OFFICE
TOWN OF MERRILLVILLE
EXAMINATION RESULTS AND COMMENTS

REVIEW OF EMERGENCY MEDICAL SERVICES PROCEDURES

The Emergency Medical Services (EMS) collection procedures are as follows:

1. Upon receiving payment, the EMS Clerk writes an EMS receipt (SBA Form 352) and holds the collection at her desk.
2. At the end of the day, the EMS Clerk compiles a bank deposit slip (EMS collections only) and places the deposit into the Clerk-Treasurer's cash drawer.
3. A Clerk-Treasurer's receipt (SBA Form 203) is written for the day's collection.
4. The Clerk-Treasurer's Bookkeeper is responsible for making all bank deposits and posting all receipts to the Town's ledgers.

For August 2006, we traced the daily EMS collections from the Clerk-Treasurer's receipts to the bank statements and ledger. We noted the following:

1. All EMS receipts for August were posted to the ledger.
2. Individual receipts for four days in August, totaling \$12,510.22, could not be traced to a bank deposit in any month through December 2006.
3. We expanded our procedures to include all 2006 EMS collections. A total of one hundred twenty-four individual receipts were posted to the EMS Fund in the Town's ledger for 2006. Thirty-nine were deposited within two days; thirty-seven from three to seven days; nineteen from eight to fourteen days; nine from fifteen to twenty-one days; ten greater than twenty-one days; and ten were not found to have been deposited. These ten, which include the four from August, total \$28,683.80.

As a result of the review of the EMS collections and deposits, we then determined that it was necessary to verify 100% of the Clerk-Treasurer's receipts (SBA Form 203) for the 2006 year to the subsequent bank deposits on the bank statements. Upon completion of the review of the 2006 receipts to bank deposits, we then determined that it was necessary to review the same documents for the years 2001 through 2005. Our only procedure performed for the year 2000 was the review of the auction receipts.

Indiana Code 5-13-6-1(d) states in part: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or town; and (2) approved as depositories of state funds."

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Our reviews, findings, shortages, and charges are documented and stated in the following Examination Results and Comments and Summary.

CLERK-TREASURER'S OFFICE
TOWN OF MERRILLVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS

As stated in prior Reports B18969, B20855, B22867, B25435, and B27204, covering the years 2001 through 2005, and for 2006, the Town had not established any segregation of duties for the Clerk-Treasurer's bookkeeping process. The Bookkeeper wrote receipts, posted all items to the ledger, made all bank deposits, controlled all unused checks, and reconciled all of the bank accounts.

Due to the lack of segregation of duties, many of the responsibilities of the Bookkeeper were not performed in a timely manner. Also, had the Bookkeeper's duties been segregated between other employees, and had her duties been reviewed, the shortages shown in this report could have been prevented or detected on a more timely basis.

In December 2006, the Clerk-Treasurer began segregating duties by utilizing two other employees in transporting the deposits to the bank. In July 2007, the Clerk-Treasurer hired an accounting firm to assist in compiling accurate bank reconciliations and ledger balances.

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.

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)

BANK RECONCILIATIONS

As stated in prior Reports B22867, B25435, and B27204, covering the years 2003 through 2005, the Town has had multiple problems with its bank reconciliations that had not improved. These problems continued in 2006 and through June 30, 2007. We noted the following deficiencies with the Town's bank reconciliations:

1. Bank reconciliations were not performed timely, causing errors and adjustments not to be detected and corrected in a timely manner.
2. The amount used as the total outstanding checks was misstated at December 31, 2006.
3. The amount used as the total outstanding deposits was understated at December 31, 2006.
4. The reconciliation prepared for December 31, 2006, did not agree to the Town's Financial Statements. The Town's main bank account's tentative reconciliation showed a cash necessary to balance (shortage) of \$193,346. At July 31, 2007, the Town is attempting to complete all reconciliations to date.
5. None of the bank teller receipts of deposit were retained for examination.
6. Not all of the Town's duplicate deposit tickets were retained for examination.

CLERK-TREASURER'S OFFICE
TOWN OF MERRILLVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

7. An adjustment of \$205,000, which would have increased the bank balance, was initially presented by the Bookkeeper on the December 31, 2006, reconciliation. The Bookkeeper indicated that this was for a temporary loan repayment from 2005 which had not been properly recorded. Further review determined the loan repayment had been properly made. This was an invalid adjustment which, when removed from the reconciliation, created the cash necessary to balance amount.

Indiana Code 5-13-6-1(e) states in part: "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."

The record balance at the end of every month shall be reconciled with the bank balance. [IC 5-13-6-1] Thus, any errors may be discovered and adjusted monthly. This procedure will localize any errors within the month and will prevent the necessity of a long and tedious search to trace errors covering transactions over a long period of time and will serve to expedite audits by the State Board of Accounts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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)

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

RECEIPTS AND DEPOSITS

As stated in prior Reports B18969, B20855, B22867, B25435, and B27204, covering the years 2001 through 2005, the Town had not complied with Indiana Code 5-13-6-1(d) concerning the timely depositing of collections. These problems continued in 2006. The following schedule (for the Town's primary bank account) shows the lack of timeliness of the Town's deposits for 2006:

<u>Deposit Time Frame</u>	<u>Number of Deposits</u>	<u>Percentage of Total</u>
Timely	129	30.7%
3-7 days late	83	19.8%
8-14 days late	58	13.8%
15-21 days late	42	10.0%
Greater than 21 days late	77	18.3%
Deposit not found	<u>31</u>	<u>7.4%</u>
Totals	<u>420</u>	<u>100%</u>

The schedule above includes deposits not found, which are discussed in the Examination Result and Comment titled "Receipts not Deposited."

CLERK-TREASURER'S OFFICE
TOWN OF MERRILLVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 5-13-6-1(d) states in part: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or town; and (2) approved as depositories of state funds."

DEPOSIT TICKETS

As we were comparing 100% of the Clerk-Treasurer's receipts to the bank deposits, we were also comparing the deposit ticket to the corresponding receipts for the accuracy of the composition of cash and checks. As part of our examination, we were supplied with some specific deposit tickets from the Town's depository (bank).

Our review determined that deposit tickets had been altered. Examples of deposit tickets that were altered are as follows:

Receipt Date	Receipt Nos.	Receipts and Town's Copy of Deposit Tickets			Bank's Copy of Deposit Ticket		
		Cash	Check	Totals	Cash	Check	Totals
April 7, 2005	103156-103164	\$ 697.00	\$ 755.00	\$ 1,452.00	\$ 3.70	\$ 1,448.30	\$ 1,452.00
September 15, 2005	105058-105804	729.00	4,518.82	5,247.82	14.00	5,233.82	5,247.82
July 31, 2006	109726	698.37	9,778.07	10,476.44	8.37	10,468.07	10,476.44

April 7, 2005

The Bank's copy of the deposit ticket did not match the Town's copy. The Bank's copy had been rewritten, dated April 12, 2005, and checks had been substituted for both cash and checks. The Bank's copy had \$3.70 in cash and fewer checks listed than the Town's copy. Only 15 of the 21 check amounts listed on the Bank's copy agreed to the Town's copy. The bank's transaction date for this deposit was April 20, 2005.

September 15, 2005

The Bank's copy of the deposit ticket had been rewritten, dated October 21, 2005, and checks had been substituted for cash. The Bank's copy had \$14 in cash, and six additional checks totaling \$715 which were not on the Town's copy. The Bank's transaction date for this deposit was November 1, 2005.

July 31, 2006

The copy of the Town's deposit ticket dated July 31, 2006, was for EMS collections receipted on the same date. The Bank's copy of the deposit ticket had been rewritten, was not dated, and checks had been substituted for cash. The Bank's copy of the deposit ticket had \$8.37 in cash, and contained two additional checks totaling \$690 which were not on the Town's copy. The Bank's transaction date for this deposit was August 9, 2005.

CLERK-TREASURER'S OFFICE
TOWN OF MERRILLVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 5-13-6-1(d) requires cities and towns to deposit all funds not later than the next business day following the receipt of funds in depositories selected by the city or town as provided in an ordinance adopted by the city or town and approved as depositories of state funds.

Public funds deposited should be deposited in the same form in which they were received. This simply means all daily receipts by the political subdivision should be deposited intact. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2004)

AUCTIONS OF TOWN EQUIPMENT

When the Town has equipment that it no longer needs or that is excessively worn, it holds public auctions to sell these items. These auctions are held on Saturdays to receive more public participation. The Town held auctions on the dates of May 13, 2000, May 26, 2001, September 28, 2002, September 27, 2003, April 17, 2004, November 13, 2004, and November 19, 2005. No auction was held in 2006.

The auction procedures were as follows:

1. Upon the sale of an item, employees of the Clerk-Treasurer's Office would issue an auction receipt (SBA Form 352) to the customer. At different auctions, up to three separate receipt books would be in use, to allow more employees to write receipts.
2. The Clerk-Treasurer's Bookkeeper would then be responsible for compiling the bank deposit tickets, taking the deposits to the bank, writing Clerk-Treasurer's receipts (SBA Form 203), and posting the receipts to the Town's ledgers.

We noted shortages with the receipts from the auctions, as noted by auction date, as follows:

May 13, 2000:

1. Auction receipts totaled \$16,295.50.
2. Clerk-Treasurer's receipts (dated May 26, 2000) totaled \$15,555.50.
3. The amount of deposit was \$10,282 on May 26, 2000.
4. Shortage of \$6,013.50 (\$16,295.50 auction receipts less deposit of \$10,282).
5. There were two Clerk-Treasurer's receipts issued. Receipt 81429 totaled \$13,545.50, with the amount written as \$3,263.50 in cash \$10,282 in checks. Receipt 84130 stated cash of \$2,010. Only the checks were deposited in the amount of \$10,282 according to the deposit ticket.

May 26, 2001:

1. Auction receipts totaled \$27,514.50.
2. Clerk-Treasurer's receipts (dated June 7, 2001) totaled \$25,604.50. These receipts did not designate the amount by cash or check.

CLERK-TREASURER'S OFFICE
TOWN OF MERRILLVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

3. The amount of deposit was \$19,078.50, deposited on June 12, 2001.
4. Shortage of \$8,436 (\$27,514.50 auction receipts less deposit of \$19,078.50).

April 17, 2004:

1. Auction receipts totaled \$38,793. These receipts indicated that \$30,250.50 in cash and \$8,542.50 in checks were collected.
2. Clerk-Treasurer's receipts (dated April 23, 2004) totaled \$38,930.50, with an unidentified difference of \$137.50. These receipts did not designate the amount by cash or check.
3. The amount of deposit was \$38,930.50, deposited on April 30, 2004.
4. With further investigation, we discovered the following: A deposit ticket provided by the Town's depository indicated \$24.14 in cash and \$38,906.36 in checks. There were eighteen checks listed on this deposit ticket. Nine checks totaling \$8,542.50 agreed to the auction receipts. The remaining nine checks, totaling \$30,363.86 did not pertain to the auction.

We could identify the source of four of these checks as follows:

- A. Checks in the amounts of \$10,018.48, \$357.45, and \$308 were from EMS collections of March 24, 2004.
- B. A check in the amount of \$9,000 was from the Town of Dyer dated April 19, 2004, and Clerk-Treasurer's Receipt 98830 dated April 22, 2004.

We determined these nine checks totaling \$30,363.86 to be substituted from other missing deposits. The \$30,363.86 is included in the total amount of "Receipts not Deposited" and "Sale of Town Equipment" as described in the following exceptions.

November 13, 2004:

1. Auction receipts totaled \$40,233. These receipts indicated that \$14,170.50 in cash and \$26,062.50 in checks were collected.
2. Clerk-Treasurer's receipts (dated November 13, 2004) totaled \$40,233. These receipts did not designate the amount by cash or check.
3. The amount of deposit was \$26,052.50, deposited on November 30, 2004.
4. Shortage of \$14,180.50 (\$40,233 auction receipts less deposit of \$26,062.50).

November 19, 2005:

1. Auction receipts totaled \$76,589.50. These receipts indicated that \$17,023.50 in cash and \$59,566 in checks were collected.
2. Clerk-Treasurer's receipts totaled \$61,843.50. Since the original and duplicate copies of the receipts were missing, we used the ledger to gather the receipt information.

CLERK-TREASURER'S OFFICE
TOWN OF MERRILLVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

3. The amount of deposit was \$48,066, deposited on November 30, 2005.
4. We could not locate the Clerk-Treasurer's copy of the deposit ticket. A deposit ticket provided by the Town's depository contained \$48,066 in checks, and no cash.
5. Shortage of \$28,523.50. (\$76,589.50 auction receipts less deposit of \$48,066)

We requested Rosemary Barath, former Clerk-Treasurer's Bookkeeper, to reimburse the Town of Merrillville \$57,153.50 in auction receipts not deposited. (See Summary, page 21)

Indiana Code 5-13-6-1(d) states in part: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or town; and (2) approved as depositories of state funds."

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SALE OF TOWN EQUIPMENT

As we were examining the detail of Clerk-Treasurer's receipts to deposits for 2004, we noted a receipt for \$9,000 from the Town of Dyer. This payment (actual check date April 19, 2004, per the Town of Dyer) was for the purchase of a 1999 Ford Crown Victoria. On April 13, 2004, the Town Council approved the sale of this vehicle. We could not locate a deposit for this payment.

The Town of Dyer's check for \$9,000 was included in the April 17, 2004, auction deposit dated April 30, 2004. This check was part of the substitution of checks for cash as shown in the "Auctions of Town Equipment" Examination Result and Comment in this report. This amount is not included in the Examination Result and Comment titled "Receipts Not Deposited" as an amount not deposited.

We requested Rosemary Barath, former Clerk-Treasurer's Bookkeeper, to reimburse the Town of Merrillville \$9,000 for receipts not deposited. (See Summary, page 21)

Indiana Code 5-13-6-1(d) states in part: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or town; and (2) approved as depositories of state funds."

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

RECEIPTS NOT DEPOSITED

Upon our review of the Emergency Medical Services collections, as stated in the Examination Result and Comment titled Review of Emergency Medical Services Procedures, we expanded our review of the receipt collections of the Clerk-Treasurer's Office. We began by scheduling 100% of the Clerk-Treasurer's

CLERK-TREASURER'S OFFICE
TOWN OF MERRILLVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

receipts (SBA Form 203) for 2006, then, scheduled the bank deposits from the Town's depository statements. We also scheduled the Town's copy of the deposit tickets, but many were missing. We later learned, through additional testing and reviewing, that some deposit tickets were altered. We then compared the receipts to the deposits.

The Town's procedures for recording and depositing collections were as follows:

1. When a receipt is written, cash, check, money order, etc., is marked in the appropriate box. If the collection is mixed in more than one type, it is so noted. Also, when a check was received, the check number was noted in the check notation space.
2. When the deposit ticket was prepared, checks were listed by amount only.
3. A notation was made on the last receipt of the day for the total receipts collected for the day, which should match the total amount being deposited.

Upon completion of this examination for 2006, we then determined that it was necessary to perform these same procedures for the years 2001 through 2005. We have detailed the problems with each year below. The following table shows the amount of receipts not deposited (shortage) for each year. This table does not include the shortages of auction receipts that were receipted by a separate set of official receipt books.

- 2006: Receipts totaling \$60,113.23 could not be traced to a corresponding deposit. This represented 31 deposits. We also had 7 deposits totaling \$19,224.38 that did not tie to any specific receipts. This resulted in a net amount of \$40,888.85 in receipts not deposited.
- 2005: Receipts totaling \$362,882.44 could not be traced to a corresponding deposit. This represented 47 deposits. We also had 15 deposits totaling \$303,571.96 that did not tie to any specific receipts. This resulted in a net amount of \$59,310.48 in receipts not deposited.
- 2004: Receipts totaling \$76,901.71 could not be traced to a corresponding deposit. This represented 42 deposits. We also had 7 deposits totaling \$23,305.19 that did not tie to any specific receipts. This resulted in a net amount of \$53,596.52 in receipts not deposited.
- 2003: Receipts totaling \$88,682.21 could not be traced to a corresponding deposit. This represented 30 deposits. We also had deposits totaling \$64,465.61 that did not tie to any specific receipts. This resulted in a net amount of \$24,216.60 in receipts not deposited.
- 2002: Receipts totaling \$47,954.03 could not be traced to a corresponding deposit. This represented 26 deposits.
- 2001: Receipts totaling \$4,960.29 could not be traced to a corresponding deposit. This represented one deposit.

CLERK-TREASURER'S OFFICE
TOWN OF MERRILLVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

<u>Year</u>	<u>Amounts Not Deposited (Shortage)</u>
2001	\$ 4,960.29
2002	47,954.03
2003	24,216.60
2004	53,596.52
2005	59,310.48
2006	<u>40,888.85</u>
Total	<u>\$ 230,626.77</u>

We examined the receipts and deposits through July 17, 2007. We were unable to locate a deposit in the amount of \$270, for Receipt 113951, dated June 5, 2007. In the subsequent review of the Town's July bank statement, we found that Mrs. Barath deposited \$270 on July 13, 2007, 10 days after her suspension from employment.

We requested Rosemary Barath, former Clerk-Treasurer's Bookkeeper, to reimburse the Town of Merrillville \$230,626.77 for receipts not deposited. (See Summary, page 21)

Indiana Code 5-13-6-1(d) states in part: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or town; and (2) approved as depositories of state funds."

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ADDITIONAL AUDIT COSTS

Additional audit costs were incurred during the current examination due to receipts not being deposited by the Bookkeeper. Expanded review into 2006 and prior years was needed based upon the Emergency Medical Services receipts and deposit results. Additional examination costs totaled \$19,795.14.

Audit costs or other cost incurred because of poor records, nonexistent records or other inadequate bookkeeping practices may be the personal obligation of the responsible official or employee of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INFORMATIONAL COMMENT – INSURANCE COVERAGE

The Town has had several crime coverage policies, with various insurance companies. The following table lists the insurance companies and periods of coverage:

CLERK-TREASURER'S OFFICE
TOWN OF MERRILLVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

Insurance Company	Coverage Type	Periods of Coverage
The First Reinsurance Company of Hartford	Crime Coverage	07-27-99 to 07-27-00
Specialty National Insurance Company	Crime Coverage	07-27-00 to 07-27-01
TIG Insurance Company	Crime Coverage	07-27-01 to 07-27-02
St. Paul Fire and Marine Insurance Company	Crime Coverage	07-27-02 to 07-27-03
St. Paul Fire and Marine Insurance Company	Crime Coverage	07-27-03 to 07-27-04
St. Paul Fire and Marine Insurance Company	Crime Coverage	07-27-04 to 07-27-05
St. Paul Fire and Marine Insurance Company	Crime Coverage	07-27-05 to 07-27-06
Argonaut Insurance Company	Crime Coverage	07-27-06 to 07-27-07

CLERK-TREASURER'S OFFICE
TOWN OF MERRILLVILLE
EXIT CONFERENCE

The contents of this report were mailed via certified mail on September 4, 2007, to Rosemary Barath, Bookkeeper.

The contents of this report were discussed on September 5, 2007, with John E. Petalas, former Clerk-Treasurer.

The contents of this report were discussed on September 5, 2007, with Rose Ann Antich, Clerk-Treasurer; and Shawn Pettit, President of the Town Council. The official response has been made a part of this report and may be found on pages 15 through 20.



Town of Merrillville

7820 BROADWAY
MERRILLVILLE, INDIANA 46410

ROSE ANN ANTICH
CLERK - TREASURER

September 21, 2007

VIA FACSIMILE & FIRST CLASS MAIL
Mr. Bruce A. Hartman, CPA, State Examiner
Indiana State Board of Accounts
302 Washington Street, Room E418
Indianapolis, Indiana 46204-2765

Ms. Mary Jo Small, Field Supervisor
For Lake, LaPorte and Porter Counties
c/o: Porter County Administration Center
Attn: Indiana State Board of Accounts
155 Indiana Avenue
Valparaiso, Indiana 46383

Re: Town of Merrillville Clerk-Treasurer's Response to the State Board of
Accounts Audit Results and Comments [Audit Period: 2006 ending 2007]

c/o: Mary Jo Small, Field Supervisor, Valparaiso, Indiana

Dear Mr. Hartman and Ms. Small:

As current Chief Fiscal Officer of the Town of Merrillville (Ind. Code 36-5-6-2) beginning on the last three days of November of 2005 (November 28, 2005), I am sending you my response to the September 5, 2007 exit conference and the written Examination

Results and Comments of the Town of Merrillville Examination from 2006 (for 2005) and prior which covers time during which the Clerk-Treasurer's Office was under the operation, management and administration of my predecessor, the former Clerk-Treasurer John E. Petalas.

Although the Town officials in attendance at the exit conference were given ten business days from that exit meeting in which to file a written Response, I was granted an extension of one week by Ms. Small. I understand that this Response will be included in the final Examination Report which gets certified.

Below, by examination topic, are my comments as the Clerk-Treasurer of the Town of Merrillville:

To the best of my abilities, I shall, in the following writing, respond to the comments of the State Board of Accounts examination of records for the years including 2001 through 2006.

PHONE
(219) 769-3501

- 15 -


FAX
(219) 756-0542

PREFACE

The Annual Financial Report 2005 (State Board of Accounts Report B27204, Dated: "2006.06.22" also reflects that there has been a change of officeholder in the Town of Merrillville Clerk-Treasurer's Office. (The Exit Conference notation on page 45 notes that the outgoing and former Clerk-Treasurer and, of note, is the fact that the former chief bookkeeper was in attendance.)

Noteworthy, too, is the "Corrective Action Plan" dated May 19, 2006 which I signed and submitted acknowledging the 2005 Financial Report findings and showing a "Corrective Action Plan" (Report page 44.) The Plan shows that many of the deficiencies in the former operation were noted and detailed in the 2005 Financial Report and that corrective action was being implemented or had been implemented by me as the new Clerk-Treasurer.

Finally, it may be helpful to read my response letter being issued simultaneously or at least contemporaneously with this Letter and therefore probably dated the same date (September 24th, 2007 or perhaps September 21st, 2007) as this letter which also offers my response and comment to the Audit Results and Comments for an Audit or Examination covering years 2006 and into 2007 and was the genesis of this Examination.

Review of Emergency Medical Services Procedures:

IC 5-13-6-1 (d)

In February of 2006 I discovered checks dating back into November and December 2005 that had not been deposited (nor receipted). They were in the billing clerk's office. I immediately reminded her that, "You've been told that all checks and monies had to be deposited within 24 hours of receipt." She responded that, "Within 24 hours of receipt" meant "Within 24 hours of writing out the receipt."

#1-

When E.M.S. monies are collected, they are put into a zippered bank bag to allow them to be a separate or an individual deposit from other funds. It was told to me that the bookkeeper had told the E.M.S. billing clerks to, "Just put the monies into the cash drawer at the front counter with the other monies collected," and that she would separate them herself. That was the routine practice prior to my becoming Clerk-Treasurer.

The billing clerks did not obey her request.

#2-

At the end of the day, (we cut our cash drawer and receipts at 2:00 p.m. to allow adequate time to close the days books accurately and make the deposit for the day) the monies and deposit slips are kept in the zippered bank bag and placed in the cash drawer at the front counter with other deposits.

#3-

I concur with State Board of Accounts Comments

#4-

The Clerk-Treasurer's bookkeeper was responsible for making all bank deposits and posting receipts to the Town's ledgers until December of 2006. I then took the responsibility of carrying deposits to the bank(s) away from her.

Either I and Vickie Barker, or Vickie and Marilyn Monk, would go to the bank. I recently learned that when I was out of the office, the then chief bookkeeper would tell the girls that she would go to the bank. I informed Marilyn and Vickie that the then bookkeeper was not to be allowed to go to the bank under any circumstances.

As indicated and documented, I have implemented a segregation of duties so all functions are no longer with the chief bookkeeper as had been the prior practice of the office under the prior administration.

For August 2006,

#3-

The bookkeeper was still going to the bank(s) on a daily basis, rarely missing a day. Early management oversight consisted of me asking daily if she had made the deposit and her response was always "yes." I would ask daily if she had made the deposit and her response was always yes.

This practice, which is more refined today, has put the office practice and procedure into compliance with IC 5-13-6-1(d).

IC 5-13-6-1 (d) PROCEDURES

In February of 2006 I discovered checks dating back into November and December 2005 that had not been deposited (nor receipted). They were in the billing clerk's office. I immediately reminded her that, "You've been told that all checks and monies had to be deposited within 24 hours of receipt." She responded that, "Within 24 hours of receipt" meant "Within 24 hours of writing out the receipt."

I explained that my definition of the word receipt was, "Within 24 hours of receiving a payment," and told her to immediately post and deposit the checks I had found. I also again instructed her that all monies, whether in the form of cash or check must be deposited within 24 hours of us receiving them. The current office practice is compliant with the 24-hour deposit rule and a segregation of duties (so one person is not in complete control) and I participate fully to provide management oversight.

The exit conference disclosed only one instance of the chief bookkeeper bypassing office procedure but it was stated in the exit conference that save that one instance "2007 is clear" of problems.

Deposit Tickets:

I concur with the statement of the State Board of Accounts. Please see comments under Review of E.M.S. procedures IC 5-13-6-1(d).

Auction of Town Equipment:

There was no auction in 2006, my only year as Clerk-Treasurer during a year in which there was an auction in 2007. Auctions in years prior to 2006, were overseen by the predecessor Clerk-Treasurer. In the 2007 auction, the cash and checks collected were receipted and timely made it to the bank for deposit.

Sale of Town Equipment:

The examination of the 2004 sale of the 1999 Ford Crown Victoria comments reveal the auditors could not locate a deposit for the payment received. Inasmuch as there was apparently no segregation of duties or management oversight by the prior administration, the examination results of identifying the bookkeeper and calling on her to reimburse the Town appear logical and the pursuit of reimbursement is necessary and proper.

Receipts Not Deposited:

The bookkeeper instructed the clerks to combine checks to read 5 @ \$100.00 = \$500.00. She specifically said not to itemize checks individually and the individual check numbers were not needed to be written on the deposit slip.

January through November of 2006, again, the bookkeeper was apparently solely responsible for taking the deposits to the bank. It was either the last week of November or the first week of December 2006 that I changed the procedure. I only allowed two employees at a time to take the daily bank deposits. That responsibility was taken entirely away from the bookkeeper; however, there were three or four days, during the fiscal year 2006, upon my absence, that she insisted on taking the deposit to the bank and the employees relented.

I can not respond to the comments regarding 2001 through 2005 as my term began in November 28, 2005.

Internal Control:

In April of 2006, segregation of duties began by having employee Linda Burns entering revenue from all sources coming in, and to date, continuing to do so.

Health Insurance bank account reconciliation and creating the outstanding check list also became Linda Burns' responsibility. She began doing the cash drawer accounting at the close of each day. All of the aforementioned had been done by the bookkeeper.

I might mention that, in January, I had told the bookkeeper that she had to hand over some of her duties to employees Linda Burns and Katie Minchuk and implement cross-training of bookkeeping duties. Both of these employees did their utmost to ask the bookkeeper questions and tried to become trained at these various functions. The bookkeeper refused to cooperate, in part because she had been with the Clerk-Treasurer's office from the beginning (following the Town's incorporation in 1973) and because it

was the routine and practice over which she previously maintained exclusive control. I even tried to get her to explain our bookkeeping system used, but to no avail.

In either late March or the beginning of April 2006, I ordered the bookkeeper to begin, in a serious manner, to train Burns and Minchuk and instructed that she had to let go of some of her duties which she monopolized as the routine practice of her (the bookkeeper's) position.

After issuing those orders to the bookkeeper, Katie Minchuk began handling employee benefits funds. In January 2006, she also began, and currently is doing forms 940, 941 and 945 (Federal Tax Forms). Again, all of which were previously done by exclusively (solely) by the bookkeeper.

Bank Reconciliations:

Again, as I can only speak for records for December 2005 and the year of 2006 along with the year 2007, to date. I concur with State Board of Accounts findings. The following comments are meant to be explanatory.

#1-

Because of the practice and routine of the office prior to me becoming Clerk-Treasurer, I specifically asked the bookkeeper if she was able to balance out at the end of each month, to which she would always answer, "Oh yes."

The problem of not reconciling every month became overt to me when there was a problem filling out figures for the 2005/2006 CTAR report. (I had requested a full audit and examination of the books by the State Board of Accounts when I first became Clerk-Treasurer in late November or early December of 2005 so that I could know I was inheriting accurate, correct, complete and clear records from the predecessor Clerk-Treasurer, but it was not possible to have State Board of Accounts satisfy my request. Nevertheless, I had undertaken to implement timely reconciliations to be performed by more than one person. Again, please see the "Corrective Action Plan" in the Annual Financial Report for 2005, at page 44, Document #B27204.)

#2-

It is suspected that the bookkeeper tampered with deposit figures.

#3-

It is suspected that the bookkeeper tampered with deposit figures.

#4-

Past reconcilements are currently in the process of being done, and all current months are being reconciled (as noted in the Report).

#5-

Prior to June 29, 2007, I personally saw some bank teller receipts in the bookkeeper's office, which disappeared between June 26, 2007 & July 2, 2007. I changed the door locks on July 2, 2007, after admission of theft by an employee.

#6-

The duplicated deposit slips were in the bookkeepers' possession during 2006 and until after State Board of Accounts arrived in 2007. It was in June 2007 that many records, including bank receipt slips and the duplicate deposit tickets were missing. During the audits of 2007, I had to retrieve many bank papers, records and documents

directly from the various banks and did facilitate a quick production of bank records to enable the State Board of Accounts to complete their audit/investigation.

In response to IC 5-15-6-3:

As previously stated, much paperwork disappeared in late June 2007. After the bookkeeper was put on "Unpaid Leave" as of July 2, 2007, and my employees, me, and State Board of Accounts auditors looked for paperwork, records and documents, we found many file cabinet drawers empty and records missing. It appeared that the file cabinets had been emptied in recent days just prior to July 2, 2007.

Receipts and Deposits:

I concur with the statement of the State Board of Accounts regarding the lack of timeliness of deposits. Please see explanation under Review of E.M.S. procedures #4 (above). Steps to correct the situation were taken in December of 2006.

Recoupment and Reimbursement

I concur with all Examination Report comments requesting or requiring reimbursement to the Town of funds which were apparently mishandled by the former bookkeeper and request the State Examiner and Attorney General of the State to prevail upon the Prosecutor of Lake County, Indiana to seek recovery and recoupment of all funds and receipts for the Town of Merrillville by seeking restitution as part of a criminal action or criminal legal proceeding.

Sincerely,



Rose Ann Antich
Clerk-Treasurer

CLERK-TREASURER'S OFFICE
TOWN OF MERRILLVILLE
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Rosemary Barath, Bookkeeper:			
Auctions of Town Equipment, pages 8 through 10	\$ 57,153.50	\$ -	\$ 57,153.50
Sale of Town Equipment, page 10	9,000.00	-	9,000.00
Receipts Not Deposited, page 10 through 12	<u>230,626.77</u>	<u>-</u>	<u>230,626.77</u>
Totals	<u>\$ 296,780.27</u>	<u>\$ -</u>	<u>\$ 296,780.27</u>

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AFFIDAVIT

STATE OF INDIANA)
Lake COUNTY)

We, Jeffrey W. Kopkey and Cynthia M. David, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the Clerk-Treasurer's Office, Town of Merrillville, Lake County, Indiana, for the period from January 1, 2000 to July 17, 2007, is true and correct to the best of our knowledge and belief.

Jeffrey W. Kopkey
Cynthia M. David
Field Examiners

Subscribed and sworn to before me this 9th day of October, 2007

Carol J. Cody
Notary Public

My Commission Expires: 10-11-2014

County of Residence: LAKE

CAROL J. CODY
Notary Public
State of Indiana
My Commission Expires Oct 11, 2014