

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

EXAMINATION REPORT

OF

TOWN OF MUNSTER

LAKE COUNTY, INDIANA

January 1, 2007 to December 31, 2007



**FILED**  
01/13/2009



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	David F. Shafer	01-01-04 to 12-31-11
President of the Town Council	Robert H. Mangus Helen Brown	01-01-07 to 12-31-07 01-01-08 to 12-31-08



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the financial information presented herein of the Town of Munster (Town), for the period of January 1, 2007 to December 31, 2007. The Town's management is responsible for the financial information presented herein. 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 financial information presented herein 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 financial information referred to above presents fairly, in all material respects, the financial information of the Town for the year ended December 31, 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

November 20, 2008

TOWN OF MUNSTER  
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES  
As Of And For The Year Ended December 31, 2007

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
<b>Governmental Funds:</b>				
General	\$ 148,250	\$ 17,325,232	\$ 17,380,525	\$ 92,957
Motor Vehicle Highway	249,792	2,854,159	2,668,704	435,247
Local Road and Street	49,894	506,366	330,118	226,142
Park and Recreation	238,587	1,638,441	1,872,880	4,148
Recreation Programming	63,563	-	63,563	-
Donation	18,389	24,206	25,806	16,789
Economic Development	173,698	164,294	159,463	178,529
Federal Grants	340	106,494	105,871	963
Law Enforcement Continuing Education	27,310	35,854	42,617	20,547
State Grants	-	50,744	35,744	15,000
Technology	73,394	332,013	324,471	80,936
Sewer Maintenance	1,624,914	7,854,450	8,291,424	1,187,940
Special Asset Forfeiture Nonreverting	8,672	5,086	1,473	12,285
Solid Waste Operating	318,808	2,691,656	2,104,344	906,120
Redevelopment Operating	-	34,413	1,011	33,402
Pool Nonreverting	2,056	-	2,056	-
Park Donation	29,183	19,816	21,361	27,638
Park Land Escrow	1,012,828	1,292,294	2,295,042	10,080
Redevelopment Reserve	-	736,555	-	736,555
Municipal Bond and Interest	222,589	2,660,413	2,704,783	178,219
Park Bond and Interest	88,366	2,429,514	2,348,165	169,715
Redevelopment Bond and Interest	-	560,042	-	560,042
Municipal Complex	164,165	3,283,338	2,985,032	462,471
Cumulative Capital Improvement	48,727	75,555	37,833	86,449
Cumulative Capital Development	2,759	270,934	273,280	413
Municipal Bond Proceeds	2,621,370	4,006,339	3,719,373	2,908,336
Barrett Bond Proceeds	3,161	-	-	3,161
Park Bond Proceeds	3,347,523	5,517,449	5,831,134	3,033,838
Riverboat	172,911	258,198	337,931	93,178
Local Major Moves	515,434	567,082	540,999	541,517
Redevelopment Capital Improvements	-	13,188,432	9,102,400	4,086,032
<b>Proprietary Funds:</b>				
Water Utility - Operating	470,460	3,970,386	3,574,241	866,605
Water Utility - Bond and Interest	176,000	7,970	183,470	500
Water Utility - Depreciation	31,030	399,756	428,120	2,666
Water Utility - Customer Deposit	225,404	54,706	16,376	263,734
Vehicle/Equipment Purchase	417,553	-	417,553	-
Medical/Life Insurance	416,940	1,436,783	1,266,467	587,256
Liability Insurance	150,524	798,253	666,254	282,523
<b>Fiduciary Funds:</b>				
Police Officers' Pension	211,786	547,601	759,366	21
Payroll	184,015	9,919,838	9,884,364	219,489
Insurance Payment	-	1,192,190	1,192,190	-
Intergovernmental Collections	210,242	1,615,200	1,600,610	224,832
Cable TV Security	101,635	111,930	106,782	106,783
Escrow	502,968	206,388	128,382	580,974
<b>Totals</b>	<b>\$ 14,325,240</b>	<b>\$ 88,750,370</b>	<b>\$ 83,831,578</b>	<b>\$ 19,244,032</b>

The accompanying notes are an integral part of the financial information.

TOWN OF MUNSTER  
NOTES TO FINANCIAL INFORMATION

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 FINANCIAL INFORMATION  
(Continued)

Note 6. Pension Plans

A. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

1. Public Employees' Retirement Fund

Plan Description

The City 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 City 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.

2. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

TOWN OF MUNSTER  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust fund.

B. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF 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 Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF.

TOWN OF MUNSTER  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Note 7. Subsequent Events

Property Tax Rates and Levies

Property tax rates and levies for 2007 taxes payable in 2008 were not established by February 15, 2007, as required by state statute due to the delay in the completion and approval of the trending ratio study used in determining the assessed value of each property within Lake County. Interim tax bills were mailed and payment was due in October 2008. In November 2008, final tax rates were established by the Indiana Department of Local Government Finance. The date of distribution of the interim collections has not been determined at this time.

Tax Anticipation Warrant

Tax anticipation warrants were issued June 2008 for \$1,667,000 to cover debt service obligations.

TOWN OF MUNSTER  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2007

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

General infrastructure assets (those reported by governmental activities) are included regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 29,252,599
Infrastructure	158,218,509
Buildings	8,742,709
Public Art	613,788
Improvements other than buildings	2,177,116
Machinery and equipment	7,686,020
Construction in progress	<u>5,823,089</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 212,513,830</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 194,321
Infrastructure	21,399,746
Construction in progress	500,000
Buildings	3,863,636
Machinery and equipment	<u>526,715</u>
 Total business-type activities capital assets	 <u>\$ 26,484,418</u>

TOWN OF MUNSTER  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF LONG-TERM DEBT  
December 31, 2007

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital leases:		
Centennial Park	\$ 14,000,000	\$ 1,220,000
Swimming pool	245,000	250,206
2005 police cars	3,247	3,314
2006 sewer vacuum	86,614	71,780
2006 police cars	43,205	44,796
2007 police cars	44,571	30,840
Bonds payable:		
General obligation bonds:		
2004 Municipal	460,000	468,797
2005 Municipal	970,000	529,418
2006 Municipal	1,510,000	539,075
2007 Municipal	1,970,000	540,281
2005 Park District	970,000	529,418
2006 Park District	1,510,000	542,550
2007 Park District	1,970,000	545,012
2007 Redevelopment	<u>8,125,000</u>	<u>556,060</u>
<b>Total governmental activities debt</b>	<b><u>\$ 31,907,637</u></b>	<b><u>\$ 5,871,547</u></b>
Business-type Activities:		
Water Utility		
Capital leases:		
2005 Water Meters #1	\$ 412,392	\$ 136,640
2006 Water Meters #2	316,675	105,260
2007 Water Meters #3	530,394	176,020
2007 Water Meters #4	<u>250,000</u>	<u>83,800</u>
<b>Total business-type activities debt:</b>	<b><u>\$ 1,509,461</u></b>	<b><u>\$ 501,720</u></b>

TOWN OF MUNSTER  
EXAMINATION RESULTS AND COMMENTS

INTERNAL CONTROLS OVER POOL CONCESSIONS

The Park Department uses cash registers at the park pool concession stand. We reviewed the manual register summaries, daily cash reports, drawer balance reports and register z tapes over a period of two weeks. Twelve of the fourteen days reviewed had register generated reports and tapes that 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. A similar comment appeared in the prior reports.

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. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CUSTOMER DEPOSIT RECONCILIATION

The computer software utilized by the Utility has the capability to generate a detailed customer deposit register; however, the Utility does not use this feature to reconcile customer deposits. The Customer Deposit Fund 604 (control account) has a balance of \$263,734 at December 31, 2007. The officials are in the process of using the software to generate a detail list so that a reconciliation can be performed to the control.

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 Cities and Towns, Chapter 7)

MALFEASANCE, MISFEASANCE OR NONFEASANCE

Several former employees of the Town were discovered selling scrap metal derived from the replacement of water meters for personal gain. The theft is currently under investigation/prosecution by the Lake County Prosecutor. As of the date of this report, restitution has been made to the Town of Munster in the amount of \$8,700.

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance 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)

TOWN OF MUNSTER  
EXIT CONFERENCE

The contents of this report were discussed on November 20, 2008, with David F. Shafer, Clerk-Treasurer; Thomas F. DeGiulio, Town Manager; and Tricia Abbott, Accounting Supervisor. The official response has been made a part of this report and may be found on pages 13 through 15.



COPY

December 1, 2008

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 2007  
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, 2007.

INTERNAL CONTROLS OVER POOL CONCESSIONS

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

Response of the Director of Parks and Recreation: We concur. Prior to the pool opening in 2009, a written procedure for handling cash at the concession stand will be developed. This procedure will be in accordance with page 52-3 through 52-7 of Chapter 7 of the Accounting Manual. The majority of personnel hired for the concession stand are of the ages 14 to 17, and for most of them this is their first employment experience. Teaching cash handling techniques and responsibility to this age group is challenging, but we will implement our best efforts to meet the standards of the State Board of Accounts. One process that will be implemented immediately is that any and all voids on the cash register must be approved and corrected by the manager on site. It is our hopes that this procedure will decrease the number of errors that occur.

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### CUSTOMER DEPOSIT RECONCILIATION

The State Board of Accounts observed that the detailed water customer deposit register has not been reconciled with the balance in the control fund.

Response of the Clerk-Treasurer: We concur. Interested readers will note that this matter has been discussed for several years. The Utility had been using an Excel spreadsheet file since the 1990s to record transactions involving water deposits. The State Board of Accounts found that the Excel program did not offer an adequate audit trail, and the Board judged the Town's Pentamation financial software package, which has been in use since 2000, to be an inadequate method of recording water deposits because the package could not furnish subtotals by alphabetical group. In the alternative, a State Board of Accounts-approved, paper-based system was returned to service for recording water deposits. The State Board of Accounts now finds that the financial software in use since 2000 is, indeed, an adequate method, since no rule or regulation could be found requiring alphabetical subtotals. The process of switching 8,000 water customer records from a computerized format to a manual system and back again to a computerized format is labor intensive and cannot be accomplished quickly. Without incurring excessive costs, we are hopeful of completing the conversion within six months.

### MALFEASANCE, MISFEASANCE OR NONFEASANCE

The State Board of Accounts commented that the Lake County Prosecutor is currently investigating/prosecuting theft of scrap metal derived from the replacement of water meters. Restitution has been made to the Town of Munster in the amount of \$8,700.

Response of the Town Manager: In February, 2008, the Town became aware of apparent irregularities in the disposal of old water meters and scrap metal. The Town Manager directed the Munster Police Department to investigate the allegations. As a result of the investigation, two part-time employees were arrested attempting to convert stolen meter parts into cash. Two supervisory employees were also found to have been involved in improper activities: one in the conversion of the cash received from the proper recycling of meters, the other was alleged to have converted monies from the sale of scrap metals for personal use. All four employees were terminated, and the Munster Police Department's investigation materials were turned over to the Lake County Prosecutor. Partial restitution has already been made. The Town is hopeful that it will recover all the monies it has documented as missing as a result of the pending prosecution.

MALFEASANCE, MISFEASANCE OR NONFEASANCE (continued)

The two supervisory employees clearly violated established practice for the handling of these types of funds. Any proceeds received from the miscellaneous sale of materials are to be deposited with the Clerk-Treasurer's Office immediately upon receipt. The water meter recycling was being handled by one of the supervisors who were terminated. Other non-supervisory employees who were unknowingly involved but did not personally gain have been counseled and disciplined. Vendors have all been reinstructed to only pay for large amounts of recycled materials purchased from the Town with a check issued to the Town of Munster. As a general practice, the Town will no longer take small amounts of materials to recycle/scrap vendors. These small amounts of materials are disposed of by a licensed hauler directly from the maintenance facility.

Thank you for allowing us to comment on the results of the examination.

Sincerely,



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

cc: Ms. Patricia L. Abbott, IAMC, CMC, Accounting Supervisor  
Hon. Helen Brown, Town Council President  
Mr. Thomas F. DeGiulio, Town Manager  
Mr. Eugene M. Feingold, Town Attorney  
Mr. Robert M. O'Shaughnessy, Director—Parks and Recreation  
Ms. Mary Jo Small, CPA, State Board of Accounts Field Supervisor ✓