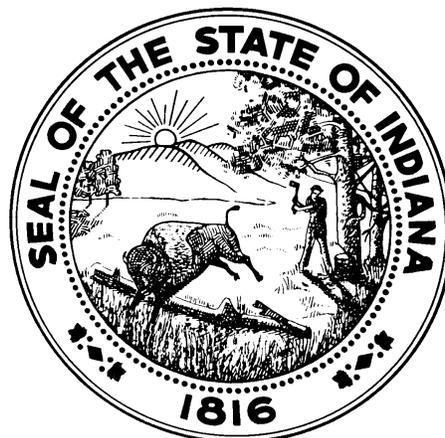


B33943

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

AUDIT REPORT  
OF  
EAST CHICAGO PORT AUTHORITY  
LAKE COUNTY, INDIANA  
January 1, 2007 to July 31, 2008



**FILED**  
01/22/2009



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PORT AUTHORITY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Port Authority Director	Richard Novak	01-01-07 to 12-31-08
Harbor Master	Karl Samuel	01-01-07 to 12-31-08
Marina Office Manager	Rosa Amaro	01-01-07 to 12-31-08
President of the Port Authority Board	Milton Reed Jr.	01-01-07 to 12-31-08
President of the Common Council	Richard Medina	01-01-07 to 12-31-08
City Controller	Charles Pacurar	01-01-07 to 12-31-08
Mayor	George Pabey	12-29-04 to 12-31-11



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

---

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

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

TO: THE OFFICIALS OF THE EAST CHICAGO PORT AUTHORITY, LAKE COUNTY

We have audited the records of the East Chicago Port Authority for the period from January 1, 2007 to July 31, 2008, 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 Audit Results and Comments. The financial transactions of this office are reflected in the Annual Report of the City of East Chicago for the year ended December 31, 2007.

STATE BOARD OF ACCOUNTS

October 2, 2008

EAST CHICAGO PORT AUTHORITY  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS

CATERING RECEIPTS NOT DEPOSITED

The East Chicago Marina collects fees for hall rental and catering services. The Catering Manager writes a "temporary" unapproved receipt for hall rental deposits and other catering services. The Catering Manager then puts the catering money and an event sheet in the locked drop box. Generally, the Marina Office Manager, Rosa Amaro would take the money out of the locked drop box and write the official receipt. In 2007, and until June 9, 2008, the Marina Secretary, Rosalia Fernandez, also prepared the official receipt and forwarded "copies" of the official receipt to the customer and to the Catering Manager for her file. The Marina Secretary also wrote official receipts for other Marina collections at the Marina office, such as wet slip rentals, security collections, gas collections and restaurant collections. She also prepared "daily recap sheets" and bank deposit tickets. The "daily recap sheet" is a sheet that identifies the deposit composition (cash or check) of a series of receipts and also identifies the appropriate marina revenue type for posting to the records. (Rosalia Fernandez was dismissed from employment on June 9, 2008, as part of a city-wide reduction in force plan.)

The "official" receipt is pre-numbered and prepared in triplicate. The white (top) copy goes to the customer, the yellow copy goes to City Hall with the deposit information (recap sheets), and the pink copy remains in the receipt book at the Marina. For all catering files on hand, we compared the "copy" of the official receipt, signed by Rosalia Fernandez, to the pink duplicate official receipt remaining in the receipt book. There were 50 instances where the "copied" official receipt in the catering file did not agree to the pink duplicate official receipt that was in the receipt book. The pink duplicate official receipt was written for marina services, other than catering, and for different amounts, than the "copy" of the official receipt in the catering file with the same receipt number. Oftentimes, the pink duplicate official receipt was signed by someone other than Rosalia Fernandez. It appears that Rosalia Fernandez created and distributed fictitious official catering receipts to the catering manager to conceal catering receipts not deposited.

All pink duplicate official receipts for the time period January 1, 2007 to July 31, 2008, were traced to bank deposits. Hence, we considered the "copied" official catering receipts in the catering file, signed by Rosalia Fernandez, that were different from the pink duplicate official receipt with the same receipt number, to be receipts not deposited into the bank. Catering receipts not deposited totaled \$11,873.12 in 2007 and \$6,320.38 in 2008 (January 1, 2008 to June 9, 2008). This totals \$18,193.50 in catering receipts not deposited.

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 Extra-Curricular Accounts, Chapter 7)

We have requested the former Marina Secretary, Rosalia Fernandez, to reimburse the East Chicago Port Authority \$18,193.50 for the catering receipts not deposited. (See Summary, page 12)

RESTAURANT RECEIPTS NOT DEPOSITED

The East Chicago Port Authority restaurant personnel remit their daily sales and reports to a deposit box that drops into the office safe. Restaurant employees do not have access to the safe once the money has been put into the safe. At that point the money is taken from the safe to prepare the "Daily Cash Receipts" sheets and to complete the deposit slip. In some instances Rosalia Fernandez would prepare the "Daily Cash Receipts" sheet and deposit ticket for the restaurant. Over the Cinco de Mayo weekend in 2008 the books retained from the restaurant showed five separate collections where the cash

EAST CHICAGO PORT AUTHORITY  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

totaled \$3,967.26. Register Z-tapes could be found to substantiate this amount. Our review of the reports Rosalia Fernandez prepared, the amount receipted and deposited to the bank, was only \$3,534.29. Therefore, \$432.97 was not deposited.

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)

We have requested the former Marina Secretary, Rosalia Fernandez, to reimburse the East Chicago Port Authority \$432.97 for the restaurant receipts not deposited. (See Summary, page 12)

OFFICIAL BOND COVERAGE

The Port Authority (Marina) Secretary is covered by a Public Employees Position Schedule Bond with the Ohio Casualty Insurance Company for the years ending December 31, 2007 and 2008. The amount of coverage is \$15,000 per year.

AUDIT COSTS - RECEIPTS NOT DEPOSITED

The State of Indiana incurred additional audit costs in the investigation of catering and restaurant receipts not deposited in the amount of \$18,724.

Audit costs incurred because of theft or shortage may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TRANSIENT RECEIPT CONTROLS

The Marina collects overnight transient fees and uses a four-ply pre-numbered form. This form has not been approved to be used as a receipt. However, officials are using these forms as a receipt for transients and as invoices for billing gas sold to other governmental units and gas usage for Marina purposes. These pre-numbered forms are distributed and used in multiple areas of the Marina. They are used at the gas docks, the security office, and the Marina office. A log is not maintained to indicate which location is responsible for which series of forms. From January 1, 2007 to July 30, 2008, 173 transient receipt forms, or 22% of the forms, could not be located for audit. The minimum fee for an overnight transient stay is \$30. The average fee of the transient receipts deposited in the audit period was \$111.76. The transient receipts not located for audit may indicate missing revenue of \$5,190 to \$19,334.48 (calculated at the minimum charge of \$30 to the average charge of \$111.76).

Tickets, goods for sale, billings, and other collections, are considered accountable items for which a corresponding deposit must be made in the bank accounts of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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.

EAST CHICAGO PORT AUTHORITY  
LAKE COUNTY  
AUDIT 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)

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)

TEMPORARY CATERING AND MARINA RECEIPTS

The Port Authority issues temporary receipts for catering collections and other marina purposes in the Marina office. These receipts are then re-written on the official receipt forms prior to deposit. Receipts should only be written at the original source. Re-writing receipts may lead to unnecessary duplication and errors.

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)

CASH PAID OUT TO SERVERS

Cash collections were paid out to servers for gratuity from customers without being deposited and without being disbursed through the claim process.

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 received by the political subdivision should be deposited intact.

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by statute, federal or state rule. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

RECEIPTS NOT DEPOSITED INTACT

Receipts collected were not always deposited intact. In 2007, there were 24 deposits where the composition of the deposit was incorrect or could not be determined because the receipts were not being marked cash, check, or money order. In the period January 1, 2008 to July 31, 2008, there were 33 deposits where the composition was incorrect or could not be determined.

Public funds deposited should be deposited in the same form in which they were received. This simply means all daily receipts received by the political subdivision should be deposited intact. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

EAST CHICAGO PORT AUTHORITY  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

RETENTION OF RECORDS - SECURITY - DAILY CASH RECEIPTS

The "Security - Daily Cash Receipts" reports (and the supporting shift envelope documentation) for the months of June, July, and September 2007, were not available for audit. These reports recap the daily security department collections for boat launches, parking/fishing fees, and ice machine receipts. Each security guard brings an envelope with his shift's collections and register tape to the Marina's locked drop box. Marina personnel prepare the "Security - Daily Cash Receipts" report to accumulate all of the shifts envelopes for the day or weekend and to prepare the official receipt for that day's security collections. The report lists the revenue types, the official receipt number, and the amount collected. This report is also used in preparing the deposit slip.

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 NOT WRITTEN FOR CREDIT CARD SALES

Official receipts issued on a daily basis do not equal the total amount of the day's collections. Currently official receipts are issued for cash and check collections and are not issued for credit card payments. The total of the official receipts issued on a daily basis will total the day's collections less the credit card payments. Therefore, each day's total amount of collections cannot be accounted for using the Port Authority's receipting system.

In accordance with the Public Depository Law cash receipts shall be deposited daily and also should be deposited in the same form as received and should equal the total amount of the day's collections. Each receipt shall note type of receipt (cash, check, money order, EFT, bank/credit card, other). (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 4)

NON-FEDERALLY INSURED REPO SWEEP BANK ACCOUNT

The Port Authority, in October 2007, started to invest in a "Non-Federally Insured Repo Sweep Bank Account." The Port Authority sweeps cash from their regular checking account to this account several times per month. At July 31, 2008, the Port Authority had \$220,274.41 invested in the non-federally insured repo sweep account. We know of no authority for a governmental unit to have "non-federally insured" bank accounts.

As stated in the Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7, under Authorized Investments:

"Repurchase agreements:

- a. With depositories designated by the state board of finance as depositories for state deposits under IC 5-13-9.5; and
- b. Involving the political subdivision's purchase and guaranteed resale of any interest-bearing obligations issued; or fully insured or guaranteed; by the United States, a United States government agency, an instrumentality of the United States, or a federal government sponsored enterprise. [IC 5-13-9-3(a)]

EAST CHICAGO PORT AUTHORITY  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS  
(Continued)

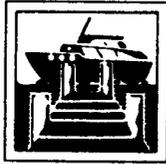
**Definition.** A repurchase agreement is defined as an agreement:

1. Involving the purchase and guaranteed resale of securities between two parties; and
2. That may be entered into for a fixed term or arranged on an open or continuing basis as a continuing contract that:
  - a. operates like a series of overnight repurchase agreements;
  - b. is renewed each day with the repurchase rate and the amount of funds invested determined daily; and
  - c. for purposes of this article, is considered to have a stated final maturity of one day. [IC5-13-9-3(a)]"

EAST CHICAGO PORT AUTHORITY  
LAKE COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on October 22, 2008, with George Pabey, Mayor; Charles Pacurar, City Controller; Kimberly Anderson, Deputy Controller; Richard Medina, President of the Common Council; Milton Reed Jr., President of the Port Authority Board; Richard Novak, Port Authority Director; and Rosa Amaro, Marina Office Manager. The official response has been made a part of this report and may be found on pages 10 and 11.

A certified return receipt letter, with a copy of the audit results and comments, was sent to Rosalia Fernandez, Marina Secretary, on October 22, 2008.



***East Chicago Marina***  
3301 Aldis Street • East Chicago, IN 46312  
Phone: (219) 391-8482 • Fax: (219) 391-8418



December 10, 2008

Mr. Mike Bozymski  
State Board of Accounts  
302 West Washington Street, Room 418E  
Indianapolis, IN 46204-2765

Dear Mr. Bozymski:

Enclosed is the Official Response from the East Chicago Port Authority to a Special Audit of the East Chicago Port Authority covering the period of January 1, 2007 to July 31, 2008.

Sincerely,

A handwritten signature in black ink that reads "Richard J. Novak".

Richard J. Novak  
Marina Director

cc: File

**EAST CHICAGO PORT AUTHORITY  
AUDIT RESPONSES  
SPECIAL AUDIT JANUARY 1, 2007 TO JULY 31, 2008**

**Catering Receipts not deposited**

The Catering Manager now writes the official receipt and puts the yellow copy of the receipt, event sheet and fees in the locked drop box. The Office Manager and Senior Clerk prepare the "daily recap sheet" and bank deposit.

**Restaurant Receipts not deposited**

Register Z tapes will be collected by the Office Manager. The Office Manager and Senior Clerk work together to prepare the "daily recap sheet" and bank deposit.

**Transient Receipt Controls**

All outstanding transient receipts up to number 1199 have been collected and are locked in the office. A transient receipt log has been created and transient receipts (beginning with #1200) have been distributed to the Gas Dock, Senior Clerk, Office Manager and Security. All individuals have been instructed to: use the tickets in numerical order, return the white and yellow copy to the Marina Office with payment, retain the pink copy until all transient receipts are used. Individuals have been advised that any voided receipts need to be returned to the Marina Office. Pink copies must be turned in to the office when requesting a new set of transient receipts.

Marina office employees are issuing transient receipts to log services provided and issuing official receipts to all customers.

**Temporary Catering and Marina Receipts**

The use of temporary receipts has been discontinued. The Office Manager, Senior Clerk and Social Director have official receipt books (disbursement is logged and maintained by the Office Manager).

**Receipts not written for Credit Card Sales**

Currently the Office Manager prepares a monthly report with the credit card statement. This report defines which revenue accounts the credit card receipts should be deposited to. The Office Manager will now issue an official receipt for credit card sales on a daily basis.

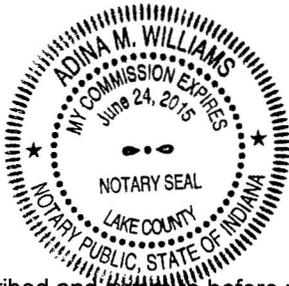
EAST CHICAGO PORT AUTHORITY  
LAKE COUNTY  
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Rosalia Fernandez, Marina Secretary:			
Catering Receipts Not Deposited, page 4	\$ 18,193.50	\$ -	\$ 18,193.50
Restaurant Receipts Not Deposited, pages 4 and 5	<u>432.97</u>	<u>-</u>	<u>432.97</u>
 Totals	 <u>\$ 18,626.47</u>	 <u>\$ -</u>	 <u>\$ 18,626.47</u>

AFFIDAVIT

STATE OF INDIANA                    )  
Lake                                    )  
  COUNTY )

We, Jane E. Elder and Kelly Wenger, Field Examiners, being duly sworn on our oaths, state that the foregoing report based on the official records of the East Chicago Port Authority, Lake County, Indiana, for the period from January 1, 2007 to July 31, 2008, is true and correct to the best of our knowledge and belief.



Jane E Elder

Kelly Wenger  
Field Examiners

Subscribed and sworn to before me this 30<sup>th</sup> day of December, 2008.

Adina M. Williams  
Notary Public

My Commission Expires: June 24, 2015

County of Residence: Lake County