

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

EXAMINATION REPORT

OF

NORTHWEST INDIANA REGIONAL BUS AUTHORITY

LAKE AND PORTER COUNTIES, INDIANA

November 1, 2008 to December 31, 2009



FILED
08/24/2011

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Timothy Brown	11-01-08 to 12-31-11
President of the Board	Dennis Rittenmeyer Steven Adik Richard Hardaway	11-01-08 to 06-01-09 06-02-09 to 12-31-10 01-01-11 to 12-31-11
Treasurer	Lynn Duttlinger Robert Lendi	11-01-08 to 12-31-10 01-01-11 to 12-31-11



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE NORTHWEST INDIANA REGIONAL
BUS AUTHORITY, LAKE AND PORTER COUNTIES, INDIANA

We have examined the financial statement of the Northwest Indiana Regional Bus Authority (Authority), for the period of November 1, 2008 to December 31, 2009. The Authority's management is responsible for the financial statement. 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 statement and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note 1, the Authority prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis noted above is a different basis than that used in the prior year.

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position and results of operations of the Authority for the period ended December 31, 2009, on the basis of accounting described in Note 1.

The accompanying financial statement has been prepared assuming that the Authority will continue as a going concern. As discussed in Note 7 to the financial statement, the Authority has not been able to secure a permanent funding source. The Authority plans to continue to search for a permanent funding source. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, as listed in the Table of Contents, are presented for additional analysis and is not a required part of the financial statement. It has not been subjected to the examination procedures applied to the financial statement and, accordingly, we express no opinion on them.

The Authority's response to the Examination Results and Comments identified in our examination is described in the accompanying section of the report entitled Official Response. We did not examine the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Authority's management, the Authority's Board, and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 29, 2011

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FINANCIAL STATEMENT

NORTHWEST INDIANA REGIONAL BUS AUTHORITY
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
 REGULATORY BASIS
 For The Period Ended December 31, 2009

	Cash and Investments <u>11-01-08</u>	<u>Receipts</u>	<u>Disbursements</u>	Cash and Investments <u>12-31-09</u>
General	<u>\$ 1,223,279</u>	<u>\$ 4,717,304</u>	<u>\$ 3,158,164</u>	<u>\$ 2,782,419</u>

The notes to the financial information are an integral part of this statement.

NORTHWEST INDIANA REGIONAL BUS AUTHORITY
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Authority was established under the laws of the State of Indiana. The Authority operates under an appointed governing board.

The accompanying financial statement(s) present(s) the financial information for the Authority (primary government), and does not include financial information for any of the Authority's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial information of the Authority (primary government).

B. Basis of Accounting

The financial statements are reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statements. The aggregate receipts may include, but are not limited to, the following sources:

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

NORTHWEST INDIANA REGIONAL BUS AUTHORITY
NOTES TO FINANCIAL STATEMENT
(Continued)

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements may include, but are not limited to, the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the Authority. It includes all expenditures for the reduction of the principal and interest of the Authority's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

F. Fund Accounting

Separate funds are established, maintained, and reported by the Authority. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself. The Authority has only established one fund at this time.

Note 2. Budgets

In accordance with Indiana Code 36-9-3-29, "The board shall prepare an annual budget for the Authority's operating and maintenance expenditures and necessary capital expenditures. Each annual budget is subject to review and modification by the: (1) fiscal body of the county or municipality that establishes the authority; and (2) county board of tax adjustment and the department of local government finance under IC 6-1.1-17."

NORTHWEST INDIANA REGIONAL BUS AUTHORITY
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 3. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be 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 statutes authorize the Authority 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.

Note 4. Risk Management

The Authority may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the Authority to set aside money for claim settlements. The self-insurance fund would be included in the financial statements. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the Authority by recording as a disbursement and replacement items purchased.

Note 5. Pension Plan - Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is 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

NORTHWEST INDIANA REGIONAL BUS AUTHORITY
NOTES TO FINANCIAL STATEMENT
(Continued)

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 6. Subsequent Events

As of January 1, 2010, the Authority assumed the administration of the Hammond transit system. The City of Hammond's contracts for fixed route and paratransit bus services were assigned to the Authority through June 30, 2010. Furthermore, the City of Hammond agreed to pay the Authority \$900,000 in each of the next two years (2010 and 2011) from gaming funds to help subsidize the cost of operations. In 2010, the Authority approved a lease with the City of Hammond to lease the Rabin Plaza from the City for \$12,000 per year for a two year period. In addition, the Authority agreed to comply with the terms of the Hammond consent decree.

During 2010, the Authority secured \$1,381,340 of Federal Transit Formula Grants, through the Northwestern Indiana Regional Planning Commission, for the operation of the Hammond transit.

In January 2011, the Northwest Indiana Regional Development Authority awarded the Authority a \$3,000,000 grant.

Note 7. Financial Conditions

The Authority has not been able to secure a permanent funding source. The Authority has estimated that if a permanent funding source is not attained then the Authority will not have the funding available to operate beyond June 2012.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Northwest Indiana Regional Bus Authority's Annual Report can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

NORTHWEST INDIANA REGIONAL BUS AUTHORITY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Period Ended December 31, 2009

	General
Cash and investments - beginning	\$ 1,223,279
Receipts:	
Intergovernmental	4,664,603
Other receipts	52,701
Total receipts	4,717,304
Disbursements:	
Personal services	370,702
Supplies	5,726
Other services and charges	2,781,736
Total disbursements	3,158,164
Excess (deficiency) of receipts over disbursements	1,559,140
Cash and investments - ending	\$ 2,782,419

NORTHWEST INDIANA REGIONAL BUS AUTHORITY
EXAMINATION RESULTS AND COMMENTS

FINANCIAL REPORT OPINION MODIFICATION

A going concern explanatory paragraph was added to the financial report opinion due to concerns over the inability to secure a permanent funding source for operations.

CASH CHANGE MACHINE

In March 2010, the Authority transferred \$3,300 to fill the cash change machine at the Dan Rabin Plaza. On July 15, 2011, the accountant replenished the cash change machine and attempted to reconcile the total cash on hand to the starting balance. Per her calculation, the total cash machine count was only \$3,034. This results in a difference of \$266. Officials need to research the cause for the difference in the cash machine total and establish procedures to ensure that the cash change is reconciled each time it is refilled.

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 Special Districts, Chapter 10)

DISBURSEMENTS

1. Vendor disbursements were supported by vendor invoices or travel vouchers; however, the prescribed or an approved accounts payable voucher (claim) was not completed. Claim forms have required official certifications that the claims have been audited and that the goods or services have been received or provided prior to payment being made.

All claims or accounts payable vouchers must be itemized and allowed by a majority of the members of the board before payment by the fiscal officer. Payment of invoices not supported by a duly certified claim or accounts payable voucher is not permissible. Also, claims and accounts payable vouchers are not required to support the following: (a) Payments due state or federal agencies for withholdings, social security contributions, etc., which are statutory payments supported by reports to such agencies. (b) Bonds, notes and other indebtedness, including the interest thereon, upon payment under the term of the written obligation. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 21)

NORTHWEST INDIANA REGIONAL BUS AUTHORITY
EXAMINATION RESULTS AND COMMENTS
(Continued)

2. The bi-monthly gross payroll and related taxes should be included on the register of claims and approved by the Regional Bus Authority. Presently these items are not included with the register of claims.

Indiana Code 5-11-10-1.6 states in part:

"(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim.

3. The salaried employees did not maintain appropriate payroll records reflecting the actual number of hours worked each day. In addition, the prescribed service record or an alternate approved form was not maintained for any employees.

The Employee's Service Record (General Form No. 99A) must be kept by each office or department for each employee in order to properly prepare "Payroll Schedule and Voucher, General Form No. 99." It records the hours or days worked, sick leave, vacation and days lost. It may also be used to comply with the requirements of IC 5-11-9-4 regarding recording hours worked each day by an employee." (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 21)

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 Special Districts, Chapter 10)

4. The Authority pays United Health Care for the entire cost of health insurance premiums for employees.

Indiana Code 5-10-8-2.6(c) states:

"A public employer may pay a part of the cost of group insurance, but shall pay a part of the cost of group life insurance for local employees. A public employer may pay, as supplemental wages, an amount equal to the deductible portion of group health insurance as long as payment of the supplemental wages will not result in the payment of the total cost of the insurance by the public employer."

NORTHWEST INDIANA REGIONAL BUS AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on August 3, 2011, with Timothy Brown, Executive Director; Richard Hardaway, President of the Board; Robert Lendi, Treasurer; and Christine McCabe, Staff Accountant. The Official Response has been made a part of this report and may be found on pages 16 and 17.



Richard Hardaway, President

Lynn Duttlinger,

Vice-President

Scott Sefton, Secretary

Robert Lendi, Treasurer

Stephen P. Adik

Roosevelt Allen, Jr.

Charles A. Barbour, Jr.

Jeff Chidester

Sheila DeBonis

Russell Franzman

Rev. Asher Harris

Renee Iovino

Steve Kramer

Daryl Lampkins

Thomas O'Donnell

Brian L. Poland

Francisco Rosado, Jr.

Margot Sabato

Corey Surrett

Kathy Willman

Ex-Officio

Charles Oberlie
Michigan City

Staff

Timothy A. Brown
Executive Director

Kenneth E. Dallmeyer
Planning & Transit Manager

Bruce Hartman, CPA
State Examiner
302 W. Washington St., Room E418
Indianapolis, IN 46204-2765

Dear Mr. Hartman:

Thank you again for providing the Northwest Indiana Regional Bus Authority (RBA) the opportunity to continue improving our operations and compliance activities with the Indiana State Board of Accounts. This letter is to respond to the Audit Results and Comments provided to the RBA during the Exit Conference held on August 3rd, 2011.

The responses contained herein follow the format of the Audit Results and Comments.

Financial Report Opinion Modification

The RBA Board of Directors concurs that there is concern over the inability to secure permanent funding. The RBA is continuing to work closely with local and state legislators to address that need.

Cash Change Machine

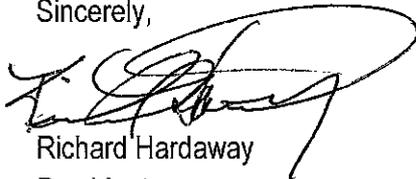
The RBA Accountant has already established with our local Hammond financial institution a reconciled count each quarter of the cash machine balances. Further, the accountant has established weekly testing on the cash and coin disbursements to check for cash machine malfunctions. Any malfunctions will be noted and a vendor repair order will be issued.

Disbursements

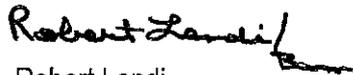
1. The staff has already rectified this issue and will be using state prescribed forms for all invoices.
2. All payroll and related taxes will be presented as part of the register of claims to the full Board each month.
3. The RBA has historically maintained accurate payroll records but not on prescribed service record forms. These forms have been provided and will be used for all salaried employees to record time worked, vacation days, sick days, and holidays.
4. The proper pre-tax program was established in August, 2011 to start employee payroll deductions for the Health Benefits Program.

Thank you for the opportunity to respond and clarify the Audit Results and Comments provided during the Exit Conference. The RBA agrees that the financial statements are fairly presented and portray the financial position of the organization accurately.

Sincerely,



Richard Hardaway
President



Robert Lendi
Treasurer