

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

FINANCIAL STATEMENT AND  
FEDERAL SINGLE AUDIT REPORT  
OF

TOWN OF WAVELAND  
MONTGOMERY COUNTY, INDIANA

January 1, 2010 to December 31, 2011



**FILED**  
07/03/2012



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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Donna Sabolick Mary S. Calvert	01-01-08 to 12-31-11 01-01-12 to 12-31-15
President of the Town Council	Lora Arts Ryan C. Gentry	01-01-10 to 12-31-11 01-01-12 to 12-31-12



**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)

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE TOWN OF WAVELAND, MONTGOMERY COUNTY, INDIANA

We have audited the accompanying financial statements of the Town of Waveland (Town), for the years ended December 31, 2010 and 2011. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the Town prepares its financial statements 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 of accounting noted above is a different basis than that used in the prior year.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Town for the years ended December 31, 2010 and 2011, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated April 23, 2012, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT  
(Continued)

Our audit was conducted for the purpose of forming an opinion on the Town's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the Town's financial statements. The Combining Schedules of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis are presented for additional analysis and are not required parts of the financial statements. They have not been subjected to the auditing procedures applied by us in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Town's management, Town Council, others within the entity, federal awarding agencies, and pass-through entities 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

April 23, 2012



**STATE OF INDIANA**  
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE TOWN OF WAVELAND, MONTGOMERY COUNTY, INDIANA

We have audited the financial statements of the Town of Waveland (Town), for the years ended December 31, 2010 and 2011, and have issued our report thereon dated April 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1 to be a material weakness.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Town's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, Town Council, others within the entity, federal awarding agencies, and pass-through entities 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

April 23, 2012

## FINANCIAL STATEMENTS

The financial statements and accompanying notes were approved by management of the Town. The financial statements and notes are presented as intended by the Town.

TOWN OF WAVELAND  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For The Year Ended December 31, 2010

Fund	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
General Fund	\$ 161,897	\$ 119,250	\$ 101,859	\$ 179,288
Street MVH	22,265	16,161	23,888	14,538
Local Road & Street	6,053	1,848	7,000	901
Law Enforcement Continuing Ed	783	305	200	888
Riverboat Sharing	12,971	2,603	4,019	11,555
Van Grant	-	138,260	138,260	-
Lake Waveland	350	363,659	363,639	370
Rainy Day	1,148	864	-	2,012
Excess Levy	-	71	-	71
Park Bond (Payments)	1,509	9,305	9,384	1,430
Storm Water Drains	-	32,200	32,200	-
CCIF	3,480	1,218	-	4,698
Town & Lake Payroll Fund	-	33,018	32,333	685
Water Works	10,431	2,581	12,794	218
Bond & Interest	2,243	16,895	19,138	-
Meter Deposits	150	-	-	150
Totals	<u>\$ 223,280</u>	<u>\$ 738,238</u>	<u>\$ 744,714</u>	<u>\$ 216,804</u>

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

TOWN OF WAVELAND  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -  
REGULATORY BASIS  
For The Year Ended December 31, 2011

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11
General Fund	\$ 179,288	\$ 78,848	\$ 111,298	\$ 146,838
Street MVH	14,538	15,416	13,068	16,886
Local Road & Street	901	1,813	-	2,714
Law Enforcement Continuing Ed	888	320	675	533
Riverboat Sharing	11,555	2,603	13,190	968
Lake Waveland	370	336,892	336,240	1,022
Rainy Day	2,012	-	-	2,012
Excess Levy	71	1,004	71	1,004
Van Grant	-	50,820	50,820	-
Park Bond (Payments)	1,430	9,396	10,719	107
Storm Water Drains	-	923,623	923,623	-
Master Park and Community Center Planning Grant	-	29,700	29,700	-
CCIF	4,698	6,129	-	10,827
Town & Lake Payroll Fund	685	33,191	33,876	-
Water Works	218	-	218	-
Meter Deposits	150	-	150	-
Totals	<u>\$ 216,804</u>	<u>\$ 1,489,755</u>	<u>\$ 1,523,648</u>	<u>\$ 182,911</u>

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

TOWN OF WAVELAND  
NOTES TO FINANCIAL STATEMENTS

**Note 1. Summary of Significant Accounting Policies**

*A. Reporting Entity*

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, electric, gas, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statements present the financial information for the Town (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:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the Town.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

TOWN OF WAVELAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

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.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

*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 includes 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 Town. It includes all expenditures for the reduction of the principal and interest of the Town'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.

TOWN OF WAVELAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

*F. Interfund Transfers*

The Town may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

*G. Fund Accounting*

Separate funds are established, maintained, and reported by the Town. 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 Town. 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 Town 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.

**Note 2. Budgets**

The operating budget is initially prepared and approved at the local level. The fiscal officer of the Town submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

**Note 3. Property Taxes**

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the Town in June and December; however, situations can arise which would delay the distributions. 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 percent 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 normally become delinquent if not paid by May 10 and November 10, respectively.

**Note 4. 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.

TOWN OF WAVELAND  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

State statutes authorize 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.

**Note 5. Risk Management**

The Town 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 Town 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 Town by recording as a disbursement any replacement items purchased.

**Note 6. Fundraiser Concert**

In 2004, the Town formed a committee to raise funds for the revitalization of the Town. The committee decided to hold a concert and found a promoter that said he could get John Mellencamp to perform at the event. In preparation for the concert, the committee incurred \$300,000 in expenses. A local businessman guaranteed a note for \$178,000 so that the committee would have working capital. The promoter did not produce John Mellencamp and Kenny Rogers was booked as a substitute. The concert revenue was \$80,000. At March 31, 2012, the principal and interest due on the guaranteed note was \$138,070. Four original members of the Town appointed committee make the payments on this note with their own money.

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## SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town's 2010 Annual Report can be found on the Indiana Transparency Portal website: [www.in.gov/itp/annual\\_reports/](http://www.in.gov/itp/annual_reports/).

For additional financial information, the Town's 2011 Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statements contained in this report and the financial information presented in the Annual Reports of the Town which are referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the Town. It is presented as intended by the Town.

TOWN OF WAVELAND  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010

	General Fund	Street MVH	Local Road & Street	Law Enforcement Continuing Ed	Riverboat Sharing	Van Grant	Lake Waveland	Rainy Day	Excess Levy
Cash and investments - beginning	\$ 161,897	\$ 22,265	\$ 6,053	\$ 783	\$ 12,971	\$ -	\$ 350	\$ 1,148	\$ -
Receipts:									
Taxes	31,537	-	-	-	-	-	-	-	-
Licenses and permits	660	-	-	305	-	-	-	-	-
Intergovernmental	21,465	16,161	1,848	-	2,603	138,260	-	864	-
Charges for services	-	-	-	-	-	-	305,920	-	-
Utility fees	-	-	-	-	-	-	-	-	-
Other receipts	65,588	-	-	-	-	-	57,739	-	71
Total receipts	119,250	16,161	1,848	305	2,603	138,260	363,659	864	71
Disbursements:									
Personal services	34,004	702	-	-	-	-	157,338	-	-
Supplies	3,087	8,141	-	-	-	-	43,295	-	-
Other services and charges	21,058	15,045	7,000	-	-	-	103,725	-	-
Capital outlay	-	-	-	-	-	-	10,843	-	-
Utility operating expenses	-	-	-	-	-	-	-	-	-
Other disbursements	43,710	-	-	200	4,019	138,260	48,438	-	-
Total disbursements	101,859	23,888	7,000	200	4,019	138,260	363,639	-	-
Excess (deficiency) of receipts over disbursements	17,391	(7,727)	(5,152)	105	(1,416)	-	20	864	71
Cash and investments - ending	\$ 179,288	\$ 14,538	\$ 901	\$ 888	\$ 11,555	\$ -	\$ 370	\$ 2,012	\$ 71

TOWN OF WAVELAND  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2010  
 (Continued)

	Park Bond (Payments)	Storm Water Drains	CCIF	Town & Lake Payroll Fund	Water Works	Bond & Interest	Meter Deposits	Totals
Cash and investments - beginning	\$ 1,509	\$ -	\$ 3,480	\$ -	\$ 10,431	\$ 2,243	\$ 150	\$ 223,280
Receipts:								
Taxes	-	-	-	-	-	-	-	31,537
Licenses and permits	-	-	-	-	-	-	-	965
Intergovernmental	-	29,700	1,218	-	-	-	-	212,119
Charges for services	-	-	-	-	-	-	-	305,920
Utility fees	-	-	-	-	2,386	-	-	2,386
Other receipts	9,305	2,500	-	33,018	195	16,895	-	185,311
Total receipts	9,305	32,200	1,218	33,018	2,581	16,895	-	738,238
Disbursements:								
Personal services	-	-	-	-	-	-	-	192,044
Supplies	-	-	-	-	-	-	-	54,523
Other services and charges	-	-	-	-	-	-	-	146,828
Capital outlay	-	-	-	-	-	-	-	10,843
Utility operating expenses	-	-	-	-	785	-	-	785
Other disbursements	9,384	32,200	-	32,333	12,009	19,138	-	339,691
Total disbursements	9,384	32,200	-	32,333	12,794	19,138	-	744,714
Excess (deficiency) of receipts over disbursements	(79)	-	1,218	685	(10,213)	(2,243)	-	(6,476)
Cash and investments - ending	\$ 1,430	\$ -	\$ 4,698	\$ 685	\$ 218	\$ -	\$ 150	\$ 216,804

TOWN OF WAVELAND  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2011

	General Fund	Street MVH	Local Road & Street	Law Enforcement Continuing Ed	Riverboat Sharing	Lake Waveland	Rainy Day	Excess Levy	Van Grant
Cash and investments - beginning	\$ 179,288	\$ 14,538	\$ 901	\$ 888	\$ 11,555	\$ 370	\$ 2,012	\$ 71	\$ -
Receipts:									
Taxes	29,486	-	-	-	-	-	-	-	-
Licenses and permits	-	-	-	320	-	-	-	-	-
Intergovernmental	13,184	10,942	1,813	-	2,603	-	-	-	-
Charges for services	5	-	-	-	-	294,715	-	-	-
Other receipts	36,173	4,474	-	-	-	42,177	-	1,004	50,820
Total receipts	78,848	15,416	1,813	320	2,603	336,892	-	1,004	50,820
Disbursements:									
Personal services	34,717	-	-	-	-	135,004	-	-	-
Supplies	6,353	4,141	-	-	-	33,017	-	-	-
Other services and charges	19,017	7,956	-	675	-	77,487	-	-	-
Debt service - principal and interest	-	-	-	-	-	1,598	-	-	-
Capital outlay	-	128	-	-	-	12,609	-	-	-
Other disbursements	51,211	843	-	-	13,190	76,525	-	71	50,820
Total disbursements	111,298	13,068	-	675	13,190	336,240	-	71	50,820
Excess (deficiency) of receipts over disbursements	(32,450)	2,348	1,813	(355)	(10,587)	652	-	933	-
Cash and investments - ending	\$ 146,838	\$ 16,886	\$ 2,714	\$ 533	\$ 968	\$ 1,022	\$ 2,012	\$ 1,004	\$ -

TOWN OF WAVELAND  
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND  
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS  
 For The Year Ended December 31, 2011  
 (Continued)

	Park Bond (Payments)	Storm Water Drains	Master Park and Community Center Planning Grant	CCIF	Town & Lake Payroll Fund	Water Works	Meter Deposits	Totals
Cash and investments - beginning	\$ 1,430	\$ -	\$ -	\$ 4,698	\$ 685	\$ 218	\$ 150	\$ 216,804
Receipts:								
Taxes	-	-	-	-	-	-	-	29,486
Licenses and permits	-	-	-	-	-	-	-	320
Intergovernmental	-	-	-	6,129	-	-	-	34,671
Charges for services	-	-	-	-	-	-	-	294,720
Other receipts	9,396	923,623	29,700	-	33,191	-	-	1,130,558
Total receipts	9,396	923,623	29,700	6,129	33,191	-	-	1,489,755
Disbursements:								
Personal services	-	-	-	-	-	-	-	169,721
Supplies	-	-	-	-	-	-	-	43,511
Other services and charges	-	-	-	-	-	-	-	105,135
Debt service - principal and interest	-	-	-	-	-	-	-	1,598
Capital outlay	-	-	-	-	-	-	-	12,737
Other disbursements	10,719	923,623	29,700	-	33,876	218	150	1,190,946
Total disbursements	10,719	923,623	29,700	-	33,876	218	150	1,523,648
Excess (deficiency) of receipts over disbursements	(1,323)	-	-	6,129	(685)	(218)	(150)	(33,893)
Cash and investments - ending	\$ 107	\$ -	\$ -	\$ 10,827	\$ -	\$ -	\$ -	\$ 182,911

#### OTHER REPORT

The annual report presented herein was prepared in addition to an official report prepared for the Town of Waveland Supplemental Charge Report.

TOWN OF WAVELAND  
AUDIT RESULTS AND COMMENTS

***TIMELY RECORDKEEPING***

Four of the thirteen local distributions tested were not recorded timely. We noted instances of several days between the deposit date and the posting date.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***ANNUAL REPORT***

The annual reports filed for 2010 and 2011 were incorrect. The activity for the General Fund and Lake Waveland Fund included bank account transactions for savings accounts that were already included in the fund balances. The Bond and Interest Fund did not include all transactions for the year. The federal schedule was not completed.

Indiana Code 5-11-1-4 (a) states in part: "The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year."

***FUND SOURCES AND USES***

In 2010, donations of \$1,371 for fireworks for Lake Waveland were receipted to the Storm Water Drains Fund. The \$1,371 donation and a transfer of \$1,129 from the Riverboat Sharing Fund were disbursed from the Storm Water Drains Fund for fireworks in 2010.

In 2011, the grant receipts totaling \$29,700 for the Master Park and Community Center Planning Grant were incorrectly recorded in the Storm Water Drains Fund. The funds were disbursed for engineering expenses for the planning grant from the Storm Water Drains Fund in 2011.

In 2011, the Park Bond Fund balance of \$1,321.80 was transferred to the Lake Waveland Fund. This should be transferred back to the Park Bond Fund.

Nine of the fifty-three disbursements tested were paid from the wrong fund. Four claims totaling \$964.35 for office supplies, town attorney fees and postage for the Town were paid from the Street MVH Fund instead of the General Fund. Four claims totaling \$623.13 for fuel and supplies for Lake Waveland were paid from the Street MVH Fund instead of the Lake Waveland Fund. One claim for \$92.39 for a cell phone for the Lake was paid from the General Fund instead of the Lake Waveland Fund.

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***RESTRICTED DONATIONS***

In May 2010, the Indiana American Water Company donated \$500 toward the purchase of playground equipment. The funds were used to purchase fireworks for the lake instead.

TOWN OF WAVELAND  
AUDIT RESULTS AND COMMENTS  
(Continued)

The Attorney General held in Official Opinion No. 68 of 1961 that no further appropriation by other officials of government is necessary to expend monies donated for the specific purpose designated by the donor of the gift. Such donation should be receipted into a separate fund properly titled, such monies not to be commingled with any other monies received by the city or town. Based upon the reasoning used in the foregoing opinion, we believe payments may be made by a city or town at any time from this fund for the purpose specified by the donor without appropriation. However, accounts payable vouchers must be filed and approved in the regular legal manner before payments are made from this specific fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***ERRORS ON CLAIMS – LAKE WAVELAND***

The following deficiencies were noted on claims during the audit period:

1. Claims were not supported by fully itemized invoices.
2. Claims or invoices did not have evidence to support receipt of goods or services.

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

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity' s fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (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."

***DEPOSITS – LAKE WAVELAND***

We discovered, during the test of park receipts for the month of July 2011, one deposit made later than the next business day.

Indiana Code 5-13-6-1(d) states: "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 the town; and (2) approved as depositories of state funds."

TOWN OF WAVELAND  
AUDIT RESULTS AND COMMENTS  
(Continued)

**PUBLIC RECORDS RETENTION**

Complete records of Lake Waveland gate receipts and other financial activity were not presented for audit. Monthly summaries of gate receipts and other Lake Waveland receipts were only presented for July 2011. Other months of 2010 and 2011 were not presented for audit.

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."

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**CAPITAL ASSET RECORDS**

The Town maintains capital asset records but did not include storm water drain purchases made with federal monies during the audit period.

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

**APPROPRIATIONS**

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
General Fund	2010	\$ 7,126
Lake Waveland Fund	2010	20,639

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

**PUBLIC WORKS LAW**

The Town did not comply with the Public Works Law for the storm water drain project. The project had a total of \$18,807 in change orders. David Price Excavating completed one change order for \$11,267, which had the appropriate signatures. The remaining change orders were not submitted for audit.

TOWN OF WAVELAND  
AUDIT RESULTS AND COMMENTS  
(Continued)

Change Orders: If, in the course of construction, reconstruction or repair of a public work project, it becomes necessary to change or alter the original specifications, a change order may be issued to add, delete, or change an item or items in the original contract. All change orders must be directly related to the original public work project. The change order becomes an addendum to the contract and must be approved and signed by the board and the contractor. If a licensed architect or engineer is assigned to the public work project the change order must be prepared by that person. The total of all change orders issued that increase the scope of the project may not exceed twenty percent (20%) of the amount of the original contract. A change order issued as a result of circumstances that could not have been reasonably foreseen does not increase the scope of the project. If additional units of materials included in the original contract are needed, the cost of these units in the change order must be the same as those shown in the original contract. A change order may not be issued before commencement of the actual construction, reconstruction, or repairs except in the case of an emergency. In that case, the board must make a declaration, and the board's minutes must show the nature of the emergency. [IC 36-1-12-18] (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**ARRA REQUIREMENTS**

The Town received a grant on June 16, 2010, for \$82,849 called the ARRA - Formula Grants for Other Than Urbanized Areas. The Town did not establish a separate fund for the ARRA grant. The funds were receipted into the Van Grant Fund and one disbursement was made from this fund for the total amount of the ARRA money.

In accordance with 2 CFR section 176.210, Federal agencies must require recipients to (1) agree to maintain records that identify adequately the source and application of ARRA awards; (2) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds; and (3) provide identification of ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC) and require their subrecipients to provide similar identification in their SEFA and SF-SAC.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**LOAN BETWEEN TOWN FUNDS**

A temporary loan of \$40,000 was made in 2011 from the General Fund to the Lake Waveland Fund and has a remaining balance owed of \$5,000 as of December 31, 2011. The Town Council approved an additional temporary loan of \$60,000 from the General Fund to the Lake Waveland Fund on January 2, 2012.

Indiana Code 36-1-8-4 concerning temporary loans states in part:

"(a) . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs; (4) The amount transferred must be returned to the other fund at the end of the prescribed period . . ."

TOWN OF WAVELAND  
AUDIT RESULTS AND COMMENTS  
(Continued)

"(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following:

- (1) Passes an ordinance or a resolution that contains the following:
  - (A) A statement that the fiscal body has determined that an emergency exists.
  - (B) A brief description of the grounds for the emergency.
  - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and department of local government finance."

***ORDINANCES AND RESOLUTIONS***

The Town issued Park Revenue Bonds in 2003 and has not made the necessary transfers to the bond and interest fund to meet payments due on the next payment due date. Transfers are not being made to the debt service fund as required.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Town Board to monitor and assess the quality of the Town's system of internal control. The Town Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

TOWN OF WAVELAND  
AUDIT RESULTS AND COMMENTS  
(Continued)

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)

**CLERK-TREASURER SALARY**

In 2009, the approved Clerk-Treasurer's salary was \$12,750. In 2010 and 2011, the approved Clerk-Treasurer's salary was \$10,800 and \$11,300, respectively, which coincides with the W2 forms issued in each year. The 2010 and 2011 approved salary decreased the Clerk-Treasurer's salary by \$1,950 and \$1,450, respectively. The Town has been asked to compensate Donna Sabolick, Clerk-Treasurer, in the amount of \$3,400.

Per the December 2011 Town Council minutes, the Board voted to give the Clerk-Treasurer a \$100 bonus. On December 7, 2011, check 7241 was written to Donna Sabolick for \$100. Donna Sabolick repaid the Town \$100 on April, 17, 2012.

Compensation of all town officers and employees shall be fixed by an ordinance of the town council, and for other than elected town officials, this compensation may be changed by another ordinance of the town council at any time. There is no limitation upon the amount fixed, only to the extent of available appropriations where tax funds are involved. [IC 36-5-3-2] At the time such compensation is fixed, it may be prorated between the general fund or any other applicable funds of the town, as well as any available utility funds.

The compensation of an elected town official may not be changed in the year for which it is fixed, nor may it be reduced below the amount fixed for the previous year.

The approval of a claim for increased compensation does not authorize the town Clerk-Treasurer to pay such increase unless it is specifically provided for by ordinance of the town council.

We recommended a salary ordinance for officials and employees for the next succeeding year should be enacted by the town council annually on or before July 1 of each year and made a part of the minutes of the town council. This action is recommended in order for town officials to have such information available prior to making out the annual budget for the next year's costs of operation. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**COMPENSATION AND BENEFITS – LAKE WAVELAND**

The Lake Waveland hourly employees were not included on the salary ordinance or resolution.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF WAVELAND  
AUDIT RESULTS AND COMMENTS  
(Continued)

**CONTRACTS**

Payments totaling \$1,800 each year were made to Recycled Goods and Trucking for rent for the police department in 2010 and 2011 without a contract. Payments totaling \$2,400 were made to Waveland Fire Department for rent for the town hall in 2010 without a contract. The Town, from the General Fund, paid Waveland Fire Department a payment of \$3,600 without a contract. This payment included the 2011 town hall rental payment amount of \$2,400 and payment on behalf of Lake Waveland of \$1,200 for rent for the town hall in 2011.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**SUPPORTING DOCUMENTATION**

Five of the fifty-three disbursements tested were not supported by adequate documentation, such as receipts, invoices, and other public records. Three of those disbursements were credit card payments that were paid from the credit card statement, which was not accompanied by detailed receipts for the purchases. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

**CREDIT CARDS**

The Town is using credit cards to purchase items without an approved credit card policy.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.

TOWN OF WAVELAND  
AUDIT RESULTS AND COMMENTS  
(Continued)

6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

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

***ERRORS ON CLAIMS -TOWN***

The following deficiencies were noted on claims during the audit period:

On February 7, 2011, a check was written to The Paper for \$134.72 and the Town had a credit due. On September 28, 2011, a check was written to Boots Brothers Oil for \$550.48. The statement that was attached to the claim included an invoice number which was noted as "not ours" in the amount of \$99.99 and the actual invoice was not attached. All other invoices were attached. However, the check was written for the full statement amount. The claim stated it was for gasoline for Lake Waveland but it was paid from the Town General Fund.

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

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity' s fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (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."

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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302 WEST WASHINGTON STREET  
ROOM E418  
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Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE TOWN OF WAVELAND, MONTGOMERY COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Waveland (Town) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended December 31, 2010 and 2011. The Town's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that are applicable to each major federal program for the years ended December 31, 2010 and 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-3 and 2011-4.

Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there is no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2011-2 to be material weaknesses.

The Town's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the Town's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Town's management, Town Council, others within the entity, federal awarding agencies, and pass-through entities 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

April 23, 2012

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## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying notes presented were approved by management of the Town. The schedule and notes are presented as intended by the Town.

TOWN OF WAVELAND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended December 31, 2010 and 2011

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-10	Total Federal Awards Expended 12-31-11
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Office of Community and Rural Affairs				
CDBG - State-Administered CDBG Cluster				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228			
Storm Water Grant		B10DC180001DR2-09-120	\$ -	\$ 923,523
Lake and Community Center Planning Grant		B11DC180001PL-07-011	-	29,700
Disaster Recovery Grant		B10DC180001DR1A-09-038	1,542	-
Storm Water Planning Grant		B10DC180001PL-09-001	29,700	-
Total for federal grantor agency			<u>31,242</u>	<u>953,223</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Pass-Through Indiana Department of Transportation				
Formula Grants for Other Than Urbanized Areas	20.509			
		FY2010	51,092	-
		FY2011	-	44,198
Total for program			<u>51,092</u>	<u>44,198</u>
ARRA - Formula Grants for Other Than Urbanized Areas	20.509			
		FY2010	82,849	-
Total for federal grantor agency			<u>133,941</u>	<u>44,198</u>
Total federal awards expended			<u>\$ 165,183</u>	<u>\$ 997,421</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF WAVELAND  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Waveland (Town) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with Indiana Code (IC 5-11-1 et seq.), audits of Towns with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

**Note 2. Subrecipients**

Of the federal expenditures presented in the schedule, the Town provided federal awards to subrecipients as follows for the years ended December 31, 2010 and 2011:

Program Title	Federal CFDA Number	2010	2011
Formula Grants for Other Than Urbanized Areas	20.509	\$ 51,092	\$ 44,198
ARRA – Formula Grants for Other Than Urbanized Areas	20.509	82,849	-

TOWN OF WAVELAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Section I – Summary of Auditor's Results**

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	yes

Identification of Major Programs:

\_\_\_\_\_ Name of Federal Program or Cluster  
CDBG – State Administered CDBG Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000  
Auditee qualified as low-risk auditee? no

**Section II – Financial Statement Findings**

**FINDING 2011-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING**

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to the achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to go undetected.

TOWN OF WAVELAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Town Board to monitor and assess the quality of the Town's system of internal control. The Town Board has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

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)

***Section III – Federal Award Findings and Questioned Costs***

***FINDING 2011-2 - INTERNAL CONTROLS OVER ALL APPLICABLE COMPLIANCE REQUIREMENTS FOR COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII***

Federal Agency: United States Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/State's Program and  
Non-Entitlement Grants in Hawaii

CFDA Number: 14.228

Pass-Through Entity: Indiana Office of Community and Rural Affairs

Award Number and Year: B10DC180001DR1A-09-038 FY2010, B10DC18001PL-09-001 FY2010,  
B10DC18001DR2-09-120 FY2011, B11DC180001PL-07-011 FY2011

Management of the Town has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the applicable compliance requirements of the grant. This includes the following compliance requirements; Allowable Activities, Allowable Costs, Cash Management, Davis Bacon, Equipment and Real Property Management, Matching, Level of Effort, Earmarking, Period of Availability, Procurement, Suspension and Debarment, Reporting, and Special Tests and Provisions. The failure to establish an effective internal control system places the Town at risk of noncompliance with the grant agreement and the applicable compliance requirements.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis.

TOWN OF WAVELAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

OMB Circular A133, Subpart C, section .300(b) states

"The auditee shall: (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the applicable compliance requirements could result in the loss of federal funds to the Town.

We recommended the Town's Management establish controls including segregation of duties, related to the grant agreement and all applicable compliance requirements.

***FINDING 2011-3 - EQUIPMENT***

Federal Agency: United States Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/State's Program  
CFDA Number: 14.228  
Pass-Through Entity: Indiana Office of Community and Rural Affairs  
Award Number and Year: B10DC180001DR1A-09-038 FY2010, B10DC18001PL-09-001 FY2010,  
B10DC18001DR2-09-120 FY2011, B11DC180001PL-07-011 FY2011

The Town maintains records that identify equipment and other property acquired with federal monies but did not include purchases made during the audit period. Equipment purchases during the audit period represent 94 percent of grant expenditures.

24 CFR 85.32 (d) states in part:

- "(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years."

Failure to maintain detailed and accurate equipment and property records could result in assets being lost, stolen, misappropriated, or disposed of improperly and not detected within a reasonable time.

We recommended that the Town design and properly monitor procedures that would ensure accurate detailed fixed asset records are maintained and that inventories of property and equipment are conducted at least once every two years and reconciled to the detailed capital asset ledger. Any significant differences should be investigated and the appropriate adjustments made to the records. Also any assets acquired with federal funds must be designated as such so that they are not disposed of improperly.

TOWN OF WAVELAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

***FINDING 2011-4 - CASH MANAGEMENT***

Federal Agency: United States Department of Housing and Urban Development  
Federal Program: Community Development Block Grants/State's Program  
CFDA Number: 14.228  
Pass-Through Entity: Indiana Office of Community and Rural Affairs  
Award Number and Year: B10DC180001DR1A-09-038 FY2010, B10DC18001PL-09-001 FY2010,  
B10DC18001DR2-09-120 FY2011, B11DC180001PL-07-011 FY2011

The Town was required to disburse the grant funds within five days of receipt. On three separate occasions the Town was delinquent in remitting the funds. One of the three instances was remitted eleven days from the date of receipt.

24 CFR 85.20 (b)(7) states in part:

"Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

Indiana CDBG Handbook, Chapter 6, Paragraph 6.3 states in part:

"1. Federal Cash Control Register: This form is used to track the receipt and expenditure of federal funds. (Expenditures of local funds are not reported on this document.) It is the State's policy under the guidance of the Code of Federal Regulations, that grant funds of \$5,000 or more must be disbursed within five business days from the date they are deposited in the Grantee's designated account. The Federal Cash Control Register also maintains a cumulative amount deposited and disbursed throughout the grant project for accurate record-keeping purposes."

Remitting funds after the five day grace period indicates noncompliance with the cash management requirement as set forth by the grant agreement.

We recommended that the Town Council take steps to establish internal controls, and communicate and implement consequences for not following internal controls. The clerk-treasurer and Town Council should work together in monitoring the grant funds so that they are remitted within the five day allowed time frame.

TOWN OF WAVELAND  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

Town of Waveland  
PO Box 162  
Waveland, In. 47989

## TOWN OF WAVELAND CORRECTIVE ACTION PLAN

### FEDERAL FINDING 2011-1, INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person: Susie Calvert  
Title of Contact Person: Clerk-Treasurer  
Phone Number: 765 435-3574  
Expected Completion Date: 4-21-12

Corrective Action:

Regarding internal Control systems for the Town of Waveland, the Clerk Treasurer shall submit a financial report to the council monthly at regular council meetings.

### FEDERAL FINDING 2011-2, INTERNAL CONTROLS OVER ALL APPLICABLE COMPLIANCE REQUIREMENTS FOR COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII

Federal Agency: United States Department of Housing and Urban Development  
Federal Program (CFDA Title): Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii  
CFDA Numbers: 14.228  
Federal Award Number and Year: B10DC180001DR1A-09-038 FY2010, B10DC18001PL-09-001 FY2010, B10DC18001DR2-09-120 FY2011, B11DC180001PL-07-011 FY2011

Contact Person: Susie Calvert  
Title of Contact Person: Clerk-Treasurer  
Phone Number: 765 435-3574  
Expected Completion Date: 4-21-12

Corrective Action:

The grant is closed out and there are no other grants pending. If future grants are received, we will take the necessary steps to tighten up our internal control procedures.

FEDERAL FINDING 2011-3, EQUIPMENT

Federal Agency: United States Department of Housing and Urban Development  
Federal Program (CFDA Title): Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii  
CFDA Numbers: 14.228  
Federal Award Number and Year: B10DC180001DR1A-09-038 FY2010, B10DC18001PL-09-001 FY2010, B10DC18001DR2-09-120 FY2011, B11DC180001PL-07-011 FY2011  
Contact Person: (SAME AS ABOVE)  
Title of Contact Person:  
Phone Number:  
Expected Completion Date:  
Corrective Action:

Equipment has been added to the capital fixed assets listing of the town. Listing will be reviewed on an as needed basis when equipment is purchased.

FEDERAL FINDING 2011-3, CASH MANAGEMENT

Federal Agency: United States Department of Housing and Urban Development  
Federal Program (CFDA Title): Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii  
CFDA Numbers: 14.228  
Federal Award Number and Year: B10DC180001DR1A-09-038 FY2010, B10DC18001PL-09-001 FY2010, B10DC18001DR2-09-120 FY2011, B11DC180001PL-07-011 FY2011  
Contact Person: (SAME AS ABOVE)  
Title of Contact Person:  
Phone Number:  
Expected Completion Date:  
Corrective Action:

The Town Council President shall be required to come into the office during business hours on a weekly basis to open mail, review statements, and respond to correspondence.

The distribution of federal grant funds within the five day time frame has been addressed by the Town Council. Submission of financial reports on a monthly basis and increased oversight from the grant administrator shall ensure the five day rule is adhered to in the future.

SIGN *Mary S. Calvert*  
TITLE Clerk Treasurer  
DATE April 23, 2012

TOWN OF WAVELAND  
EXIT CONFERENCE

The contents of this report were discussed on April 23, 2012, with Ryan C. Gentry, President of the Town Council. The official concurred with our audit findings.

The contents of this report were discussed on April 23, 2012, with Mary S. Calvert, Clerk-Treasurer, and Donna Sabolick, former Clerk-Treasurer.