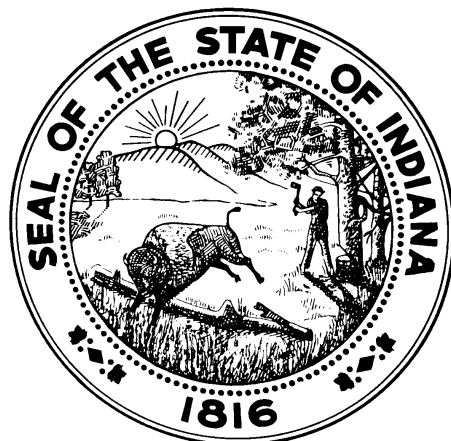


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SPECIAL REPORT
OF

LITTLE CALUMET RIVER BASIN
DEVELOPMENT COMMISSION
PORTER COUNTY, INDIANA

January 1, 2006 to August 30, 2008



FILED
12/17/2008

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Dan Gardner Jody Melton (Interim)	01-01-06 to 09-26-08 10-16-08 to 12-31-08
Treasurer	Arlene Colvin Kent Gurley	01-01-06 to 12-31-06 01-01-07 to 12-31-08
Chairman of the Board	William Biller	01-01-06 to 12-31-08



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TO: THE OFFICIALS OF THE LITTLE CALUMET RIVER BASIN DEVELOPMENT
COMMISSION, PORTER COUNTY, INDIANA

We have examined the records of the Little Calumet River Basin Development Commission for the period from January 1, 2006 to August 30, 2008, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Examination Results and Comments.

STATE BOARD OF ACCOUNTS

December 8, 2008

LITTLE CALUMET RIVER BASIN DEVELOPMENT COMMISSION
PORTER COUNTY
SPECIAL REPORT

Creation of the Commission

The Little Calumet River Basin Development Commission (Commission) was created in 1980 by the Indiana General Assembly to serve as the required local sponsor for the Little Calumet River, Indiana Flood Control and Recreation Project. The federal project, which was authorized for construction in the 1986 Water Resources Development Act, is designed to provide structural flood protection up to the 200-year level along the main channel of the Little Calumet River from the Illinois State line to Martin Luther King Drive in Gary. The Commission is to consist of eleven members. One member each appointed by Lake County, Porter County, City of Gary, City of Hammond, the Commission Director, and six members appointed by the governor.

The Commission has an agreement with the Army Corp of Engineers (Corp), dated August 16, 1990, with two amendments dated July 30, 1999, and April 26, 2000, respectively. The agreement specifies the obligations of the Commission and the Corp during this project. The Corp is responsible for the bidding and construction of the project. The Commission is responsible for 25% of the annually determined cash contribution and the acquisition of property. The land acquisitions are mainly financed through the State of Indiana. In addition, the commission generates local revenue.

In April 2000, an additional amendment to the agreement was signed addressing the Burr Street Levee Betterment. The Commission desired the construction of additional structural flood controls over and above what the Corp determined to be necessary. The Commission absorbed the costs for this project. These additional costs were financed through the State of Indiana.

Organization Structure

The Commission has an executive director, business coordinator, and four contracted employees. As described in greater detail below, the Commission has a contract with the Northwestern Indiana Regional Planning Commission (NIRPC) for the payment of the executive director, business operations coordinator, additional accounting services, office space, and general office expenses.

The executive director is covered under the agreement with NIRPC. This is a part-time position with the following responsibilities: administrative oversight of the activities of the commission and attendance at all regular and special meetings. The amount paid by the commission per the contract is intended to cover direct salaries and fringe benefits.

The business operations coordinator is included under the agreement with NIRPC. This is a full-time position and the amount paid to NIRPC is intended to cover direct salaries and fringe benefits. The business operations coordinator is responsible for the day to day basic business functions. The business operations coordinator is also a contracted crediting technician.

The Commission entered into an independent contract for engineering services and land management. The duties and responsibilities include, but are not limited to, coordinating the commission's efforts to acquire land needed for the project and provide oversight of the Army Corp of Engineers and other related vendors. According to the contract, the independent contractor shall submit a timesheet detailing specific work performed, time devoted thereto and date.

Another independent contractor serves as a land acquisition agent. One of the duties of this independent contractor is to coordinate the actual acquisition of property, assuring the compliance to legal procedures. According to the contract, the independent contractor shall submit a timesheet detailing work performed, time devoted thereto and date.

LITTLE CALUMET RIVER BASIN DEVELOPMENT COMMISSION
PORTER COUNTY
SPECIAL REPORT
(Continued)

The last independent contract is for a crediting technician and land acquisition assistant. The process of the Commission reaching the 25% contribution necessary, according to the agreement between the Commission and the Corp, is classified as "crediting." These are items that are directly related to the completion of the flood control project. All of the direct costs (costs related to the purchase of land, easements, etc.) have to be classified as "creditable" by the Corp. These creditable costs are submitted to the Corp for their approval (creditable or not creditable). According to the contract, the independent contractor shall submit invoices and claims on a bi-monthly basis for services rendered. The invoice shall record the number of hours the contractor has worked in that period.

In addition, the contract with NIRPC includes financial management assistance to the Commission. An accountant paid through NIRPC is responsible for certain accounting services to the Commission.

Overview of Financial Accounting

Two funds are maintained by the commission:

- The Land Acquisition Fund - Revenues for this fund are provided by the State of Indiana and represent the largest portion of the revenue received by the Commission. The State draws are requested by the Commission to the State of Indiana for reimbursement of expenditures made by the Commission. Disbursements from this fund are generally for "creditable" land acquisition costs.
- The General Fund - Revenues are generated from local sources for the Commission. Revenues include billboard leases, tower leases, rental property (including farm land rental), municipality contributions, interest (earned from an investment of funds that were provided for the start up of the commission and an escrow account established on behalf of the Army Corp of Engineers). General fund disbursements are administrative costs or operating and maintenance costs. The operating and maintenance costs are for maintaining existing levees that have been completed by the Army Corp of Engineers. Local municipalities have not currently taken responsibility for the costs of the existing levees; therefore, it is the responsibility of the Commission to account for these costs.

In addition, the Commission has established the following savings accounts:

- An escrow account that was established for the Army Corps of Engineers' cash contribution. The amounts owed the Corp are deposited into the escrow account and, when the Corp requests the contribution, the amount requested is debited from the account directly to the Corp. The interest earned from this savings can be utilized by the Commission for administrative purposes.
- A high interest savings account was also established. At one time there was a \$700,000 Certificate of Deposit (CD). The interest from the CD was used for operating purposes of the Commission. The Commission began to draw on the principal balance of this CD in 2005 to supplement land acquisition and administrative costs. The funds from this savings account are transferred into the main checking account and are disbursed from the two funds of the commission (Land Acquisition Fund and General Fund).

LITTLE CALUMET RIVER BASIN DEVELOPMENT COMMISSION
PORTER COUNTY
SPECIAL REPORT
(Continued)

The revenues and disbursements for the Little Calumet River Basin Development Commission are as follows:

REVENUE SUMMARY

<u>Revenue (Land Acquisition & General Fund)</u>	<u>Jan 1 - Aug 30 2008</u>	<u>2007</u>	<u>2006</u>
Billboard Leases:			
Lamar	\$ 6,648.32	\$ 9,894.16	\$ 9,732.52
View Outdoor Advertising	<u>20,250.00</u>	<u>111,750.00</u>	<u>22,500.00</u> ⌘
Total Billboard Leases	<u>26,898.32</u>	<u>121,644.16</u>	<u>32,232.52</u>
⌘ On June, 2007, vendor prepaid for 11 months (\$99,000)			
Tower Lease:			
Chicago Tower Leasing	12,544.00	18,816.00	18,816.00
Rental Property:			
Property Liquidators	1,576.00	1,576.00	-
Farm leases	-	■ 21,442.75	20,830.61
■ Farm lease not collected until November of each year			
Municipality Income:			
Town of Munster	18,917.00	191,997.00	
City of Hammond			10,000.00
Interest:			
Checking account	<u>974.27</u>	<u>2,230.09</u>	<u>1,609.62</u>
Total municipality income	<u>19,891.27</u>	<u>194,227.09</u>	<u>11,609.62</u>
Reimbursement:			
Kankakee Valley Basin Commission (phone charges)	978.01	1,416.90	1,663.20
Overpayment received from vendors	<u>100.00</u>	<u>1,165.00</u>	<u>5,810.92</u>
Total reimbursement	<u>1,078.01</u>	<u>2,581.90</u>	<u>7,474.12</u>
State Draws:			
State of Indiana (related to Calumet River levees)	1,145,288.95	1,361,906.77	1,044,450.65
State of Indiana (Burr Street) portion		1,442,583.00	❖
Trust			<u>400.00</u>
❖ 25% cost share of Burr Street Phase II project			
Total state draws	<u>1,145,288.95</u>	<u>2,804,489.77</u>	<u>1,044,850.65</u>

LITTLE CALUMET RIVER BASIN DEVELOPMENT COMMISSION
 PORTER COUNTY
 SPECIAL REPORT
 (Continued)

REVENUE SUMMARY
 (Continued)

<u>Revenue (Land Acquisition & General Fund) (continued)</u>	<u>Jan 1 - Aug 30 2008</u>	<u>2007</u>	<u>2006</u>
Funds deposited into the General and Land Acquisition from:			
Escrow:			
Interest from construction escrow	20,720.62	4,418.00	10,787.00
Savings:			
Interest from high balance savings	5,789.72	25,720.00	18,848.00
From principal of Certificate of Deposit (\$700,000)	38,054.35	170,464.10	100,160.25
From Operating and Maintenance portion of savings	18,885.05	41,493.09	306,853.94
Burr Street savings:			
Interest	-	20,216.89	-
State reimbursement for Burr Street project	-	426,675.58	196,388.53
Total revenues transferred to Land Acquisition and General funds from savings accounts	<u>83,449.74</u>	<u>688,987.66</u>	<u>633,037.72</u>
Total Revenue into the Land Acquisition and General fund	<u>\$ 1,290,726.29</u>	<u>\$ 3,853,765.33</u>	<u>\$ 1,758,851.24</u>

- \$29,300 was directly debited from the savings account for a land acquisition (see Disbursement summary)

Additional revenues not accounted for in the Land Acquisition or General funds:

ESCROW Construction savings account			
RDA Loan	\$ 1,381,000.00	\$	\$
State Drawdown			1,831,000.00
Corp of Engineer return of funds disbursed		800,000.00	
Burr Street savings			
State Drawdown			623,061.00
Savings (High Interest):			
State of Indiana Drawdown			300,000.00

LITTLE CALUMET RIVER BASIN DEVELOPMENT COMMISSION
PORTER COUNTY
SPECIAL REPORT
(Continued)

DISBURSEMENT SUMMARY

DISBURSEMENTS:	2008	2007	2006
Land Acquisition Fund:			
Contracted Engineer Hours	\$ 83,701.05	\$ 119,572.90	\$ 118,078.70
Contracted Engineer Travel	1,786.00	3,344.40	3,374.00
Contracted Land Acquisition	58,591.28	72,260.38	64,507.43
Contracted Land Acquisition Travel	249.12	181.60	354.80
Contracted Credit Tech Hours	17,464.72	28,350.20	19,413.34
Contracted Credit Tech Travel	-	-	24.00
Contracted Credit Tech Hours - Business Coordinator	3,500.75	3,637.50	3,500.00
Contracted Credit Tech Travel - Business Coordinator	-	25.20	-
Land Acquisition (Direct purchase of land)	401,368.00	406,641.20	192,624.31
Title Work	30,870.00	64,205.00	61,447.00
Surveying	138,768.22	225,929.30	221,639.20
Additional Engineering Services	27,489.31	8,552.21	29,216.97
O & M	35,861.00	139,898.24	-
Insurance	53,410.00	44,603.90	-
Attorney Services	89,523.22	122,161.98	94,641.15
Land Acquisition Recording	981.00	1,214.00	1,036.00
Appraisals	107,150.00	255,450.00	147,000.00
Utility Relocations	101,348.21	76,522.05	71,150.10
Miscellaneous	355.76	186.00	2,559.08
Repayment of Savings - vendors paid before state dist	-	-	133,629.90
Burr Street Betterment	-	119,962.01	196,388.53
	<u>1,152,417.64</u>	<u>1,692,698.07</u>	<u>1,360,584.51</u>
Total Land Acquisition Fund disbursements			
General Fund:			
Telephone	5,972.73	7,293.55	7,600.74
Commissioner Per Diem	5,650.00	5,100.00	5,850.00
Commissioner Travel	1,208.40	896.00	921.60
Business Coordinator Travel	245.88	362.60	352.00
Attorney Retainer	2,266.64	3,399.96	3,683.29
NIRPC reimbursement	108,489.52	147,751.64	143,390.69
Advertising	105.87	279.84	-
O & M	27,535.35	47,198.97	122,679.16
Contracted Engineer Cell Phone	378.15	636.23	99.47
Insurance	6,481.25	7,133.25	54,482.08
Burr Street Betterment	-	346,421.40	1,723.50
In-house Surveying	-	57,847.25	-
Land Acquisition (Direct purchase of land)	23,203.00	-	-
Other	1,757.35	3,178.74	2,774.38
	<u>183,294.14</u>	<u>627,499.43</u>	<u>343,556.91</u>
Total General Fund disbursements			
Total disbursements from the Land Acquisition and General fund	<u>\$ 1,335,711.78</u>	<u>\$ 2,320,197.50</u>	<u>\$ 1,704,141.42</u>
Additional disbursements not accounted for in the Land Acquisition or General funds:			
ESCROW Construction savings account:			
Army Corp payments with fees	\$ 1,220,050.00	\$ 1,442,583.00	\$ 2,003,000.00
Savings (High Interest):			
Army Corp payments with fees			300,000.00
Debit from savings: LaSalle Bank National Association Trust - Land Acquisition			29,300.00

LITTLE CALUMET RIVER BASIN DEVELOPMENT COMMISSION
 PORTER COUNTY
 SPECIAL REPORT
 (Continued)

Liquidation of Certificate of Deposit

In 2005, the Commission began to draw on the principal of the \$700,000 certificate of deposit. These withdrawals were transferred to the two main funds of the commission for land acquisition and administrative costs. The following details the activity of the dissolution of the certificate of deposit:

CERTIFICATE OF DEPOSIT (\$700,000) BREAKDOWN

Land Acquisition Fund:	
Contracted Engineer Hours	\$ 64,641.85
Contracted Engineer Travel	1,466.76
Contracted Land Acquisition	41,570.55
Contracted Land Acquisition Travel	151.30
Contracted Credit Technician Hours	13,544.50
Land Acquisition	60,300.00
Title Work	25,314.40
Surveying	98,782.51
Additional Engineering Services	30,193.20
Advertising	153.31
Attorney Services	40,661.07
Land Acquisition Recording	385.00
Appraisals	108,550.00
Utility Relocations	270.00
Miscellaneous (Video production of flood plain)	<u>9,655.00</u>
 Total used for Land Acquisition	 <u>495,639.45</u>
 General Fund:	
Surveying	56,200.00
Land Acquisition	10,106.20
Transfer of cash	<u>138,054.35</u>
 Total used for General Fund	 <u>204,360.55</u>
 Total Certificate of Deposit Liquidated	 <u><u>\$ 700,000.00</u></u>
 Principal liquidated by year:	
2005	\$ 362,021.30
2006	129,460.25
2007	170,464.10
2008	<u>38,054.35</u>
 Total	 <u><u>\$ 700,000.00</u></u>

Note: These withdrawals were transferred into the Commission's two major funds for land acquisition and administrative costs (general fund).
 # - The 2005 drawdowns will not be shown in the revenue summary.

LITTLE CALUMET RIVER BASIN DEVELOPMENT COMMISSION
PORTER COUNTY
EXAMINATION RESULTS AND COMMENTS

CONTRACTS

The engineer and land acquisition contracts require the contractors to submit timesheets detailing work performed, time devoted thereto and date. The contractors are only submitting hours worked for each pay period. Documentation detailing work performed was not submitted with the number of hours worked.

The contracted engineer was reimbursed for general office supplies. According to the contract, those types of expenditures are the responsibility of the contracted engineer.

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 Special Districts, Chapter 10)

STATE REIMBURSEMENTS

Two claims totaling \$6,889.08 were submitted to the state for reimbursement in January, 2008. As of October, 2008, the state reimbursements had not been received. Commission personnel were not aware the reimbursements had not been received. After the discrepancy was brought to their attention, they contacted the state and reimbursement was received in November 2008.

Historically, the claims submitted to the state for reimbursement were normally for land acquisition "creditable" costs. In 2008, requests for state reimbursement included administrative costs totaling \$41,546.32 and operating and maintenance costs totaling \$44,940.35. Through inquiry, we could not determine whether these costs were eligible to be reimbursed by the state.

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 Special Districts, Chapter 10)

CREDIT CARDS

Several credit card claims for meals and hotel purchases did not include the itemized receipts. The only documentation presented for audit was the credit card statement or the signed credit card payment slip.

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. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

LITTLE CALUMET RIVER BASIN DEVELOPMENT COMMISSION
PORTER COUNTY
EXIT CONFERENCE

The contents of this report were discussed on December 9, 2008, with Jody Melton, Interim Executive Director; Sandra Mordus, Business Operations Coordinator; and Judy Penn, Accountant for Partner Agencies. The official response has been made a part of this report and may be found on pages 12 and 13.



Little Calumet River Basin Development Commission

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E-mail: littlecal@nirpc.org

WILLIAM BILLER, Chairman
Governor's Appointment

December 11, 2008

R. KENT GURLEY, Treasurer
Lake County Commissioners' Appointment

MARK GORDISH, Secretary
Mayor of Hammond's Appointment

WILLIAM BAKER
Governor's Appointment

Mr. Bruce Hartman
State Examiner
STATE BOARD OF ACCOUNTS
302 W. Washington Street
Room E418
Indianapolis, Indiana 46204-2765

DAVID BURRUS
Porter County Commissioners' Appointment

ARLENE COLVIN
Mayor of Gary's Appointment

Dear Mr. Hartman:

DAN DERNULC
Governor's Appointment

Please consider this letter as the Commission's response to the comments we have received from the State Board of Accounts examination results for the period covering 2006, 2007, and partial 2008.

ROBERT HUFFMAN
Governor's Appointment

Contracts:

RON McAHRON
Dept. of Natural Resources' Appointment

(1) "The engineer and land acquisition contracts require the contractors to submit time sheets detailing work performed, time devoted thereto and date. The contractors are only submitting hours worked for each pay period. Documentation detailing work performed was not submitted with the number of hours worked."

JOHN MROCZKOWSKI
Governor's Appointment

Response: It is correct that the contract employees have only been submitting hours for work performed and not a detailed accounting of those hours. Although they have kept an individual calendar accounting of their work performed, it was not made part of their time sheet. From this point on, they have been directed to detail out their respective hours and submit that detail as part of their time sheet.

VACANCY
Governor's Appointment

VACANCY
Executive Director

LOU CASALE
Attorney

(2) "The contracted engineer was reimbursed for general office supplies and according to the contract, those type of expenditures are the responsibility of the contracted engineer."

Response: The contracted engineer has primarily been reimbursed for the purchase of film and the cost of developing those project-related pictures. The contracted engineer was reimbursed for some specialty office supplies.

State Reimbursements:

(1) "Two state reimbursements totaling \$6,889.08 were submitted to the state for reimbursement in January, 2008. As of October 2008, the state reimbursements had not been received. Unit personnel were not aware the reimbursements had not been received. After bringing the discrepancy to their attention, they contacted the state and reimbursement was received in November 2008."

Response: During the time period that these two draws were submitted to the State, it was done by staff other than the assigned NIRPC accountant who normally does this task. (That accountant was on a 3 month disability leave.) Upon year-end accounting of figures, she would have discovered that the deposits had not been done. The State Board of Accounts analyst did discover this error and it was immediately corrected with the State.

(2)"Historically, the claims submitted to the state for reimbursement were normally for land acquisition "creditable" costs. In 2008, requests for state reimbursement included administrative costs totaling \$41,546.32 and operating and maintenance costs totaling \$44,940.35. Through inquiry, we could not determine whether these costs were eligible to be reimbursed by the state."

Response: Draws that are creditable are always accompanied by a letter from the Army Corps of Engineers declaring those claims are creditable. When draws were sent that were not creditable, they were always done on a separate draw that did not have an Army Corps letter accompanying them. We have never been told by the State Budget Agency that they were not eligible for reimbursement and have always been reimbursed for them.

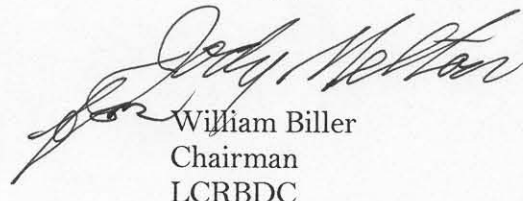
Credit Cards:

"Several credit card claims for meals and hotel purchases did not include the itemized receipts. The only documentation presented for audit was the credit card statement or the signed credit card payment slip."

Response: Individual fast food/restaurant receipts were generally not submitted as part of that claim. In the future, staff will make sure individual receipts are received and attached as part of the claim.

In conclusion, corrective measures have been taken to address these comments. Thank you for opportunity to submit a response.

Sincerely,



William Biller
Chairman
LCRBDC