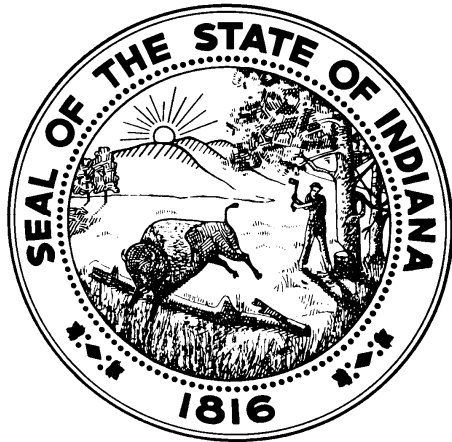


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF
MERRILLVILLE CONSERVANCY DISTRICT
LAKE COUNTY, INDIANA
January 1, 2005 to December 31, 2007



FILED
02/05/2009

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
District Manager	Christine V. Savarese	01-01-05 to 08-21-08
Financial Clerk	Keith A. Lennon	09-08-08 to 12-31-09
District Coordinator	Charles J. Stojakovich	01-02-08 to 12-31-09
Chairman of the Board of Directors	Paul L. Volk Edward M. Sperka	01-01-05 to 12-31-07 01-01-08 to 12-31-09



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

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

INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE MERRILLVILLE CONSERVANCY DISTRICT, LAKE COUNTY, INDIANA

We have examined the financial information presented herein of the Merrillville Conservancy District (District), for the period of January 1, 2005 to December 31, 2007. The District's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the District for the years ended December 31, 2005, 2006, and 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

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

STATE BOARD OF ACCOUNTS

December 29, 2008

MERRILLVILLE CONSERVANCY DISTRICT
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL FUND TYPES
As Of And For The Years Ended December 31, 2005, 2006, 2007

	Cash and Investments 01-01-05	Receipts	Disbursements	Cash and Investments 12-31-05
Governmental Funds:				
General	\$ 1,252,302	\$ 3,946,464	\$ 3,443,541	\$ 1,755,225
Construction	660,289	17,103	-	677,392
Debt Service	122,544	4,539,464	2,992,917	1,669,091
Cumulative	282,821	9,498	-	292,319
Expansion	1,810,957	6,069,285	2,198,781	5,681,461
Escrow	15,008	65	-	15,073
2003 Bond Proceeds	5,115,419	22,380	5,137,799	-
Totals	<u>\$ 9,259,340</u>	<u>\$ 14,604,259</u>	<u>\$ 13,773,038</u>	<u>\$ 10,090,561</u>

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 1,755,225	\$ 3,755,855	\$ 4,004,336	\$ 1,506,744
Construction	677,392	25,994	-	703,386
Debt Service	1,669,091	3,167,222	3,135,587	1,700,726
Cumulative	292,319	300,070	-	592,389
Expansion	5,681,461	1,706,047	1,730,282	5,657,226
Escrow	15,073	53	-	15,126
Totals	<u>\$ 10,090,561</u>	<u>\$ 8,955,241</u>	<u>\$ 8,870,205</u>	<u>\$ 10,175,597</u>

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds:				
General	\$ 1,506,744	\$ 4,018,269	\$ 3,774,820	\$ 1,750,193
Construction	703,386	1,392,623	1,250,000	846,009
Debt Service	1,700,726	2,731,549	4,405,282	26,993
Cumulative	592,389	31,517	-	623,906
Expansion	5,657,226	461,614	1,988,078	4,130,762
Escrow	15,126	35	-	15,161
Totals	<u>\$ 10,175,597</u>	<u>\$ 8,635,607</u>	<u>\$ 11,418,180</u>	<u>\$ 7,393,024</u>

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

MERRILLVILLE CONSERVANCY DISTRICT
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The District was established under the laws of the State of Indiana. The District provides the following services: the collection, treatment, and disposal of sewage and other liquid wastes.

Note 2. Fund Accounting

The District uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the District in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

Property taxes have not been billed or collected timely each year since 2004. The final settlement of the 2004 taxes payable in 2005 was distributed to the various governmental entities in March 2006. For the 2005 taxes payable in 2006, the tax bills were mailed to Lake County residents in August 2006. They were due in two installments on August 29, 2006, and November 14, 2006. The final settlement of the 2005 taxes payable in 2006 was distributed to the various governmental entities on January 4, 2007. For the 2006 taxes payable in 2007, the tax bills were mailed to Lake County residents in January 2008. They were due in one installment on January 31, 2008. The final settlement of the 2006 taxes payable in 2007 was distributed to the various governmental entities on March 20, 2008.

MERRILLVILLE CONSERVANCY DISTRICT
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the District 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 6. Subsequent Events

In accordance with state statutes, all counties were required to reassess property values prior to billing taxes in 2007. Significant delays in the reassessment process have resulted in delays in billing for the 2007 taxes payable in 2008. Taxes are normally billed in two installments, the first is due in May, and the second in November. A provisional installment was due in October 2008. The officials expect to mail the final tax bill in January 2009.

On March 3, 2008, the District entered into a new engineering contract of \$447,800 for the upgrade and modernization of the Taft Street Lift Station.

On July 21, 2008, the Independence Hill Conservancy District (IHCD) presented the Merrillville Conservancy District (MCD) with a check for \$2,600,000 representing partial payment of money owed MCD for past due capital cost payments that MCD made on IHCD's behalf.

On July 31, 2008, a catastrophic equipment and installation failure occurred at the main lift station where a contractor was installing the new force main. Most of the extra costs to correct the problem were paid by the contractor.

On December 15, 2008, Resolution 2008-05 was approved. It authorized a temporary loan of \$1,405,000 from the Cumulative Fund to the Debt Service Fund in order to have money to pay the debt payments that were due. Property tax collection payments have not yet been received. The loan will be repaid upon distribution of property taxes by the County Treasurer.

MERRILLVILLE CONSERVANCY DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2007

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

General infrastructure assets are included if acquired (purchased, constructed, or donated) after July 1, 1980, or if they received major renovations, restorations, or improvements after that date. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 4,881,675
Sewers, manholes, and lift stations	47,014,257
Maintenance equipment	284,171
Vehicles	844,252
Office equipment	<u>180,312</u>
 Total governmental activities, capital assets not being depreciated	 \$ <u>53,204,667</u>

MERRILLVILLE CONSERVANCY DISTRICT
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2007

The Merrillville Conservancy District has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Bonds payable:		
General obligation bonds:		
2000 Construction Additions and Improvements	\$ 8,465,000	\$ 1,339,324
2003 Construction Additions and Improvements	9,650,000	913,533
2007 Refunding	<u>8,935,000</u>	<u>394,680</u>
Total governmental activities debt	<u>\$ 27,050,000</u>	<u>\$ 2,647,536</u>

MERRILLVILLE CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS

TRANSACTION RECORDING

The District has a fund called Mississippi Street Escrow Account (Escrow) that began with a deposit of \$15,000.00 on August 31, 2004. The amounts reported in the records do not agree with the annual report amounts for all three years, as shown in the following table.

<u>Year</u>	<u>Report</u>	<u>Records</u>	<u>Difference</u>
2005	\$ 15,073.33	\$ 60.69	\$ 15,012.64
2006	15,126.11	100.30	15,025.81
2007	15,161.34	135.53	15,025.81

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

ACCOUNTS PAYABLE VOUCHERS

The following deficiencies were noted concerning accounts payable vouchers:

1. Disbursements of \$5,137,798.69 from the 2003 Bond Proceeds Fund were not approved by the Board and accounts payable vouchers were not prepared for these disbursements.
2. There was no written contract or agreement for the services of the computer programmer.
3. Payments to the contractor for the Lakewood Estates Low Pressure System were 38% higher than the original contract. The original contract was for \$535,280 and payments totaled \$738,829.34.
4. Accounts payable vouchers were not certified by the District Manager or District Coordinator or Financial Clerk.

All claims or accounts payable vouchers must be itemized and allowed by a majority of the members of the board before payment by the fiscal officer. Payment of invoices not supported by a duly certified claim or accounts payable voucher is not permissible. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 21)

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)

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. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 17)

MERRILLVILLE CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 5-11-10-2(a) states:

"Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer."

TEMPORARY TRANSFER OF FUNDS

A temporary transfer of \$1,300,000 was made on January 17, 2007, from the Debt Service Fund to the Construction Fund. On December 17, 2007, \$1,250,000 of the temporary transfer was repaid by the Construction Fund to the Debt Service Fund. A balance of \$50,000 was not repaid in 2007 and has not been repaid through December 15, 2008. The Board of Directors did not pass a resolution permitting this temporary transfer.

Indiana Code 36-1-8-4 (a) concerning temporary transfer states in part:

"The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period . . . (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."

Indiana Code 36-1-8-4 (b) states, in part:

"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."

CAPITAL ASSET RECORDS

The following additions and disposals were not recorded in the capital assets ledger:

1. Disposal of 1990 Blazer in 2005.
2. Addition of \$913,298.18 for the John Wood School Sewer Project by Woodruff and Sons in 2006.
3. Disposal of generators up for auction in 2006.
4. Addition of \$106,758.00 for the 57th Avenue Lift Station Generator Emergency Power Supply by Continental Electric in 2007.
5. Disposal of land at the end of 2007.

MERRILLVILLE CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded on the applicable Capital Asset Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

DISBURSEMENTS EXCEEDED APPROPRIATIONS

The records presented for examination indicated the following disbursements in excess of budgeted appropriations:

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
Debt Service	2007	<u>\$ 88,652.42</u>

The District officials posted the budget appropriation amount as approved by the Board in an additional appropriation resolution. The Department of Local Government Finance approved the additional appropriation for a lower amount and the District officials did not adjust what was posted as the appropriation amount in the ledger.

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."

OFFICIAL BONDS

The Merrillville Conservancy District had official bond coverage for the five board members and the Financial Clerk for each year; however, the official bonds were not recorded in the Lake County Recorder's office. Also, the amount of the bond coverage was insufficient according to statute. The coverage for the Financial Clerk was \$60,000 each year, while statute required coverage from \$105,000 to \$225,000.

Indiana Code 5-4-1-5.1(b) states in part:

"Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder. . . ."

MERRILLVILLE CONSERVANCY DISTRICT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 5-4-1-18 (c) states:

"The fiscal bodies of the respective units shall fix the amount of the bond of . . . conservancy district financial clerks as follows:

- (1) The amount must equal fifteen thousand dollars (\$15,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2).
- (2) The amount may not be less than fifteen thousand dollars (\$15,000) nor more than three hundred thousand dollars (\$300,000)."

MERRILLVILLE CONSERVANCY DISTRICT
EXIT CONFERENCE

The contents of this report were discussed on December 29, 2008, with Edward M. Sperka, Chairman of the Board of Directors; Keith A. Lennon, Financial Clerk; Charles J. Stojakovich, District Coordinator; Vickee Edwards, Accounts Receivable Clerk; and Peggy Mayersky, Accounts Payable Clerk. The officials concurred with our findings.

The contents of this report were sent by certified letter on December 30, 2008, to Christine V. Savarese, the former District Manager. Her response may be found on pages 14 and 15.

January 08, 2009

Barbara A. Williams, CPA, CGFM
Indiana State Board of Accounts
302 West Washington Street
4th Floor – Room E418
Indianapolis, IN 46204-2738

RE: Examination Results – MCD – 2005, 2006, 2007 -- Response

Dear Ms. Williams,

While I have been separated from the District for almost six months and this report covers the abovementioned years, I will attempt to clarify some of the assumptions made during the examination of records. Obviously, I am at a distinct disadvantage as I have only memory to rely. Had I been contacted while the examination was going on, perhaps I could have cleared up several of these items at that time. However, I will do my best to set the record straight.

Regarding the Mississippi Street Escrow Account – This was a small account that paid interest quarterly. The amount of interest earned for the 4th quarter of 2007 was posted in January of 2008 but I obviously included the amount in 2007 as it was earned during that calendar year. I assume I did that in an effort to make the figures as up to date as possible.

Regarding Accounts Payable Vouchers – All disbursements from the Bonds Proceeds Fund was approved by the Board of Directors to fund projects being finished under that particular Bond Issue and to start the new projects from the next Bond Issue while that Bond Issue was being finalized. All projects and payment covering construction and expenses were approved by the Board of Directors.

Regarding the Lakewood Estates Project – That particular project grew as the original count of participating homes was set too low and additional costs were encountered that were not anticipated. These costs also include additional areas, easements expenses that were higher, and lawsuits. Again, all construction payments and additional expenses payments were approved by the Board of Directors.

Regarding the Accounts Payable Vouchers not certified by Financial Clerk – The practice at the beginning of the examination period was that I would review all expenses prior to giving them to the Secretary/Treasurer of the Board, Mr. Joseph Sanok, who was the Finance Chairman. He would also review, comment, or ask any questions he may have had. He would then initial the claims showing they had been reviewed and approved by him. The claim's registers were also given to the Board in advance of their meetings and the final approval of all Accounts Payable Vouchers by way of the Claim's Registers was done by Board Action.

Regarding Change Orders issued that increased the Scope of Work – All Change Orders came from the engineering firm of RW Armstrong and Associates to the Board of Directors. If the Change Order exceeded the allowed twenty percent, the MCD Attorney would normally weigh in by telling the Board would have to be rebid that particular item as a new and separate contract. Without any particulars, I do not know which Change Order you would be referring to.

Regarding the Temporary Transfer of Funds – Due to the property tax situation in Lake County, the MCD General Fund loaned the Debt Service Fund \$1,300,000 to pay their bi-yearly expenses. When the county finally collected the tax revenue and the District was able to pay itself back, the money was deposited into the Construction Fund. The reason for this was that it was apparent the Lake County tax situation was not going to be cleared up for some time and by putting it in the Construction Fund, the Board felt it would be kept separate and safe until needed. In 2007, again the District had to use the saved money to pay their bi-yearly expenses. As of August 2008, we had no tax collection. If the tax collection at the end of 2008 covered the additional \$50,000, I'm sure it would have been repaid. However, I have no knowledge of what transpired after August.

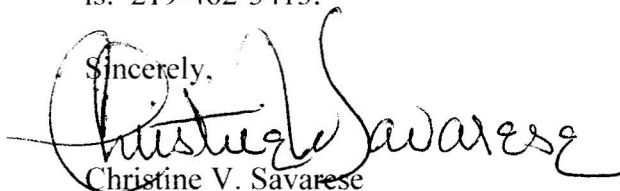
Regarding the Capital Asset Records -- These records were kept by Mrs. Peggy Mayersky. If these items were not entered or deleted, I'm sure it was just an oversight on her part.

Regarding the Official Bonds – To my knowledge, the District recorded the Official Bond after it was received from the insurance company after the February election. As to any changes in the amounts, I had no knowledge that the statute had been changed.

Again, please understand that I am at a distinct disadvantage in that after all this time, all I have to rely on is memory with no documentation before me. It is my understanding that the new Financial Clerk will attend or has attended a class so that he can be more current with policy and state statues and I'm sure these items will not be repeated in the future.

Should you wish to contact me regarding any of the above statements, my phone number is: 219-462-3413.

Sincerely,

A handwritten signature in cursive script that reads "Christine V. Savarese". The signature is written in black ink and is positioned above the printed name.

Christine V. Savarese

August 1981 to August 2008