

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

TOWN OF MERRILLVILLE
LAKE COUNTY, INDIANA

January 1, 2010 to December 31, 2010



FILED
11/14/2011

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Eugene M. Guernsey	01-01-08 to 12-31-11
President of the Town Council	Richard Hardaway Thomas Goralczyk	01-01-10 to 12-31-10 01-01-11 to 12-31-11



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE TOWN OF MERRILLVILLE, LAKE COUNTY, INDIANA

We have audited the accompanying financial statement of the Town of Merrillville (Town), for the year ended December 31, 2010. The financial statement is the responsibility of the Town's management. Our responsibility is to express an opinion on the financial statement 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 statement is 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 statement. 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 opinion.

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

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

In accordance with Government Auditing Standards, we have also issued a report dated September 26, 2011, 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 ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Our audit was conducted for the purpose of forming an opinion on the Town's financial statement. 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 statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

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

The Town's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. 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 and 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

October 13, 2011



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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 MERRILLVILLE, LAKE COUNTY, INDIANA

We have audited the financial statement of the Town of Merrillville (Town), for the year ended December 31, 2010, and have issued our report thereon dated October 13, 2011. 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 opinion on the financial statement, 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 statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1, 2010-2, 2010-3, 2010-4, and 2010-5 to be material weaknesses.

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 statement is 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1 through 2010-5.

The Town's response to the findings identified in our audit is described in the accompanying sections of the report entitled Official Response and 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 and 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

October 13, 2011

FINANCIAL STATEMENT

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

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

	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
General	\$ 568,083	\$ 13,101,875	\$ 13,135,494	\$ 534,464
Motor Vehicle	(141,333)	858,237	707,416	9,488
Local Roads And Street	27,179	348,338	338,757	36,760
Parks Non-Reverting	20,796	35,012	31,524	24,284
Court Probation	10,668	44,772	39,853	15,587
EMS/Ambulance	(20,880)	23,727	2,847	-
Town Donations	34,475	14,744	18,509	30,710
Economic Development Commission	190	-	-	190
Police Department Continuing Education	56,259	46,204	38,726	63,737
Record Perpetuation	3,495	10,434	9,978	3,951
Casino Gaming	353,439	488,288	408,603	433,124
Bike Trail Grant	97,320	-	73,899	23,421
Parks And Recreation	114,416	171,631	226,515	59,532
Park Donation	7,701	5,035	5,325	7,411
Town Party Donations	218	-	-	218
Veterans Memorial	4,542	3,989	5,945	2,586
Off Track Betting Donation	4,338	9,169	6,329	7,178
New Town Hall Donation	743	-	-	743
Emergency Management Agency	(5,215)	-	1,091	(6,306)
Police Special Grant	8,917	48,738	47,962	9,693
Special Projects	364	-	-	364
U. S. Cable Escrow	194,866	195	-	195,061
Landscaping Escrow	-	4,000	4,000	-
Fire And Hazmat	22,303	143,932	112,118	54,117
Property Seizure	14,251	36,624	16,960	33,915
Levy Excess	-	22,252	-	22,252
Merrillville Road TIF Project	273,387	930,202	322,543	881,046
Certified Technology Park	-	483,565	483,565	-
Broadway TIF	157,516	803,691	181,225	779,982
Mississippi Street TIF Project	15,896	754,848	583,079	187,665
Major Moves Construction	-	-	-	-
Mississippi Street- Project 2	-	1,131,689	1,131,689	-
Public Defender Fees	23,826	10,401	11,917	22,310
Police Donation	9,086	8,399	9,697	7,788
Park Impact Fees	69,837	48,985	100,495	18,327
Tourism	656	4,725	545	4,836
County Reimbursement Welfare	143,046	26,444	82,876	86,614
Bridgewood Estates Phase II	939	-	-	939
Redevelopment Commission Bonds 2005 Debt Service	485,096	1,587,483	1,315,753	756,826
General Obligation Bond Debt Service	241,422	1,081,272	1,020,013	302,681
Mississippi Street TIF Debt Service Reserve	596,338	160,000	-	756,338
Merrillville Road TIF Debt Service	522,124	2,729,524	1,962,238	1,289,410
Mississippi Street TIF Debt Service	534,646	1,522,315	1,406,968	649,993
TIF Debt Service Reserves	197,130	276	-	197,406
Ameriplex At Crossroads	-	614,031	614,031	-
Cumulative Capital Improvement	50,451	89,479	-	139,930
Cumulative Capital Development	321,788	314,365	291,566	344,587
Police Equipment	196,802	210,504	356,992	50,314
Firefighters Equipment	9,410	15,870	19,990	5,290
Redevelopment Commission Bonds 2005	193,924	1,500	2,244	193,180
Engineering Fees	11,517	25,701	24,980	12,238
Recycling Grant Fund	55,453	193,270	183,661	65,062
Judgment Bond Proceeds	-	528,120	523,000	5,120
Storm Water Operation Maintenance	(62,547)	1,609,599	606,572	940,480
Police Pension - 25	(127,600)	541,329	419,326	(5,597)
Police Pension-PERF	45,654	132,023	138,064	39,613
Noxious Weeds Non-Reverting	12,384	2,274	13,391	1,267
Payroll	304,704	5,891,218	6,062,902	133,020
Health Insurance Escrow	2,277	1,845,181	1,847,458	-
Employee Insurance Benefits	1,548	1,465,724	1,464,415	2,857
Town Court	352,315	1,589,295	1,394,744	546,866
Totals	<u>\$ 6,016,160</u>	<u>\$ 41,770,498</u>	<u>\$ 37,807,790</u>	<u>\$ 9,978,868</u>

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

TOWN OF MERRILLVILLE
NOTES TO FINANCIAL STATEMENT

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 the following services: public safety (police), highways and streets, culture and recreation, public improvements, planning and zoning, general administrative services, storm water, trash, and urban redevelopment and housing.

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

B. Basis of Accounting

The financial statement is 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 statement. 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.

Special assessments which includes amounts levied against certain properties to defray all or part of the cost of a specific capital improvement or service deemed to benefit primarily those properties.

TOWN OF MERRILLVILLE
NOTES TO FINANCIAL STATEMENT
(Continued)

License and permits which includes amounts received from businesses, occupations, or non-businesses 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 license and permits include: peddler licenses; dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits; and gun permits.

Intergovernmental receipts which includes receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts includes, but is 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 includes 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).

Net proceeds from borrowings which includes receipts from general obligation bonds, notes and loans.

Intergovernmental loan activity which includes amounts received from other funds as loans on a temporary basis.

Transfers in which includes funds authorized by statute, ordinance, resolution or court order to be transferred in from another fund.

Internal service receipts which are comprised mostly of fees received for services performed for other funds.

Fiduciary receipts which are comprised mostly of contributions to the pensions funds from state and local sources.

E. Disbursements

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

TOWN OF MERRILLVILLE
NOTES TO FINANCIAL STATEMENT
(Continued)

Personal services which includes 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 includes, but is not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance; and rental charges.

Debt service principle and interest which includes 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 includes all outflows for land, infrastructure, buildings, improvements, machinery and equipment having an appreciable and calculable period of usefulness.

Interfund loan payments and loans made which includes amounts that are owed to a particular fund by another fund.

Transfers out which includes funds authorized by statute, ordinance, resolution or court order to be transferred to another fund.

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.

TOWN OF MERRILLVILLE
NOTES TO FINANCIAL STATEMENT
(Continued)

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 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 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 and replacement items purchased.

TOWN OF MERRILLVILLE
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 6. Subsequent Event

The Town approved Ordinance No. 11-17 on August 8, 2011, authorizing the issuance and sale of bonds not to exceed \$225,000 for the purpose of funding a certain judgment entered against the Town.

Note 7. Pension Plan

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

B. 1925 Police Officers' Pension Plan

Plan Description

The 1925 Police Officers' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

TOWN OF MERRILLVILLE
NOTES TO FINANCIAL STATEMENT
(Continued)

Funding Policy

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

On Behalf Payments

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Public Employees' Retirement Fund as provided under IC 5-10.3-11.

C. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy

The contribution requirements of plan members and the Town are established by the Board of Trustees of PERF.

SUPPLEMENTARY INFORMATION – UNAUDITED

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

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the Town which is 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 prepared by management of the Town. It is presented as intended by the Town.

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

	General	Motor Vehicle	Local Roads And Street	Parks Non-Reverting	Court Probation	EMS/Ambulance
Cash and investments - beginning	\$ 568,083	\$ (141,333)	\$ 27,179	\$ 20,796	\$ 10,668	\$ (20,880)
Receipts:						
Taxes	5,005,456	-	-	-	-	-
Licenses and permits	513,943	-	-	-	-	-
Intergovernmental	700,212	837,646	346,837	-	-	-
Charges for services	335,469	11,400	-	35,012	-	7,507
Fines and forfeits	429,292	-	-	-	44,772	-
Other receipts	6,117,503	9,191	1,501	-	-	16,220
Total receipts	<u>13,101,875</u>	<u>858,237</u>	<u>348,338</u>	<u>35,012</u>	<u>44,772</u>	<u>23,727</u>
Disbursements:						
Personal services	5,859,385	707,195	18,147	9,863	21,471	-
Supplies	248,143	221	262,523	1,167	3,745	-
Other services and charges	1,809,997	-	58,087	19,724	14,637	-
Capital outlay	395	-	-	-	-	-
Other disbursements	5,217,574	-	-	770	-	2,847
Total disbursements	<u>13,135,494</u>	<u>707,416</u>	<u>338,757</u>	<u>31,524</u>	<u>39,853</u>	<u>2,847</u>
Excess (deficiency) of receipts over disbursements	<u>(33,619)</u>	<u>150,821</u>	<u>9,581</u>	<u>3,488</u>	<u>4,919</u>	<u>20,880</u>
Cash and investments - ending	<u>\$ 534,464</u>	<u>\$ 9,488</u>	<u>\$ 36,760</u>	<u>\$ 24,284</u>	<u>\$ 15,587</u>	<u>\$ -</u>

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

	Town Donations	Economic Development Commission	Police Department Continuing Education	Record Perpetuation	Casino Gaming	Bike Trail Grant
Cash and investments - beginning	\$ 34,475	\$ 190	\$ 56,259	\$ 3,495	\$ 353,439	\$ 97,320
Receipts:						
Taxes	-	-	1,915	-	-	-
Licenses and permits	-	-	14,700	-	-	-
Intergovernmental	-	-	-	-	445,777	-
Charges for services	-	-	24,669	-	-	-
Fines and forfeits	-	-	4,920	10,434	-	-
Other receipts	14,744	-	-	-	42,511	-
Total receipts	<u>14,744</u>	<u>-</u>	<u>46,204</u>	<u>10,434</u>	<u>488,288</u>	<u>-</u>
Disbursements:						
Personal services	-	-	1,357	9,978	-	-
Supplies	-	-	4,725	-	-	-
Other services and charges	18,509	-	8,658	-	-	73,899
Capital outlay	-	-	23,986	-	408,603	-
Other disbursements	-	-	-	-	-	-
Total disbursements	<u>18,509</u>	<u>-</u>	<u>38,726</u>	<u>9,978</u>	<u>408,603</u>	<u>73,899</u>
Excess (deficiency) of receipts over disbursements	<u>(3,765)</u>	<u>-</u>	<u>7,478</u>	<u>456</u>	<u>79,685</u>	<u>(73,899)</u>
Cash and investments - ending	<u>\$ 30,710</u>	<u>\$ 190</u>	<u>\$ 63,737</u>	<u>\$ 3,951</u>	<u>\$ 433,124</u>	<u>\$ 23,421</u>

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

	Parks And Recreation	Park Donation	Town Party Donations	Veterans Memorial	Off Track Betting Donation
Cash and investments - beginning	\$ 114,416	\$ 7,701	\$ 218	\$ 4,542	\$ 4,338
Receipts:					
Taxes	164,584	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental	6,772	-	-	-	-
Charges for services	275	-	-	-	-
Fines and forfeits	-	-	-	-	-
Other receipts	-	5,035	-	3,989	9,169
Total receipts	<u>171,631</u>	<u>5,035</u>	<u>-</u>	<u>3,989</u>	<u>9,169</u>
Disbursements:					
Personal services	114,864	-	-	-	6,329
Supplies	8,891	-	-	-	-
Other services and charges	8,054	5,325	-	3,945	-
Capital outlay	24,706	-	-	-	-
Other disbursements	70,000	-	-	2,000	-
Total disbursements	<u>226,515</u>	<u>5,325</u>	<u>-</u>	<u>5,945</u>	<u>6,329</u>
Excess (deficiency) of receipts over disbursements	<u>(54,884)</u>	<u>(290)</u>	<u>-</u>	<u>(1,956)</u>	<u>2,840</u>
Cash and investments - ending	<u>\$ 59,532</u>	<u>\$ 7,411</u>	<u>\$ 218</u>	<u>\$ 2,586</u>	<u>\$ 7,178</u>

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

	New Town Hall Donation	Emergency Management Agency	Police Special Grant	Special Projects	U.S. Cable Escrow
Cash and investments - beginning	\$ 743	\$ (5,215)	\$ 8,917	\$ 364	\$ 194,866
Receipts:					
Taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	48,738	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Other receipts	-	-	-	-	195
Total receipts	-	-	48,738	-	195
Disbursements:					
Personal services	-	-	47,962	-	-
Supplies	-	-	-	-	-
Other services and charges	-	791	-	-	-
Capital outlay	-	-	-	-	-
Other disbursements	-	300	-	-	-
Total disbursements	-	1,091	47,962	-	-
Excess (deficiency) of receipts over disbursements	-	(1,091)	776	-	195
Cash and investments - ending	\$ 743	\$ (6,306)	\$ 9,693	\$ 364	\$ 195,061

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

	Landscaping Escrow	Fire And Hazmat	Property Seizure	Levy Excess	Merrillville Road TIF Project
Cash and investments - beginning	\$ -	\$ 22,303	\$ 14,251	\$ -	\$ 273,387
Receipts:					
Taxes	-	-	-	22,252	-
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	36,624	-	-
Other receipts	4,000	143,932	-	-	930,202
Total receipts	<u>4,000</u>	<u>143,932</u>	<u>36,624</u>	<u>22,252</u>	<u>930,202</u>
Disbursements:					
Personal services	-	109,268	16,960	-	-
Supplies	-	1,936	-	-	-
Other services and charges	-	59	-	-	-
Capital outlay	-	-	-	-	322,543
Other disbursements	4,000	855	-	-	-
Total disbursements	<u>4,000</u>	<u>112,118</u>	<u>16,960</u>	<u>-</u>	<u>322,543</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>31,814</u>	<u>19,664</u>	<u>22,252</u>	<u>607,659</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 54,117</u>	<u>\$ 33,915</u>	<u>\$ 22,252</u>	<u>\$ 881,046</u>

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

	Certified Technology Park	Broadway TIF	Mississippi Street TIF Project	Major Moves Construction	Mississippi Street- Project 2
Cash and investments - beginning	\$ -	\$ 157,516	\$ 15,896	\$ -	\$ -
Receipts:					
Taxes	-	803,691	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Other receipts	483,565	-	754,848	-	1,131,689
Total receipts	483,565	803,691	754,848	-	1,131,689
Disbursements:					
Personal services	-	-	-	-	-
Supplies	-	-	-	-	-
Other services and charges	-	-	-	-	1,131,689
Capital outlay	-	181,225	483,079	-	-
Other disbursements	483,565	-	100,000	-	-
Total disbursements	483,565	181,225	583,079	-	1,131,689
Excess (deficiency) of receipts over disbursements	-	622,466	171,769	-	-
Cash and investments - ending	\$ -	\$ 779,982	\$ 187,665	\$ -	\$ -

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

	Public Defender Fees	Police Donation	Park Impact Fees	Tourism	County Reimbursement Welfare
Cash and investments - beginning	\$ 23,826	\$ 9,086	\$ 69,837	\$ 656	\$ 143,046
Receipts:					
Taxes	-	-	-	4,725	-
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	10,401	-	-	-	-
Other receipts	-	8,399	48,985	-	26,444
Total receipts	<u>10,401</u>	<u>8,399</u>	<u>48,985</u>	<u>4,725</u>	<u>26,444</u>
Disbursements:					
Personal services	-	-	-	-	-
Supplies	-	9,027	-	-	1,926
Other services and charges	11,917	670	37,801	545	80,950
Capital outlay	-	-	62,402	-	-
Other disbursements	-	-	292	-	-
Total disbursements	<u>11,917</u>	<u>9,697</u>	<u>100,495</u>	<u>545</u>	<u>82,876</u>
Excess (deficiency) of receipts over disbursements	<u>(1,516)</u>	<u>(1,298)</u>	<u>(51,510)</u>	<u>4,180</u>	<u>(56,432)</u>
Cash and investments - ending	<u>\$ 22,310</u>	<u>\$ 7,788</u>	<u>\$ 18,327</u>	<u>\$ 4,836</u>	<u>\$ 86,614</u>

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

	Bridgewood Estates Phase II	Redevelopment Commission Bonds 2005 Debt Service	General Obligation Bond Debt Service	Mississippi Street Debt Service Reserve	Merrillville Road TIF Debt Service
Cash and investments - beginning	\$ 939	\$ 485,096	\$ 241,422	\$ 596,338	\$ 522,124
Receipts:					
Taxes	-	688,535	371,446	-	1,018,524
Licenses and permits	-	-	-	-	-
Intergovernmental	-	32,448	27,495	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Other receipts	-	866,500	682,331	160,000	1,711,000
Total receipts	-	1,587,483	1,081,272	160,000	2,729,524
Disbursements:					
Personal services	-	-	-	-	-
Supplies	-	-	-	-	-
Other services and charges	-	-	-	-	-
Capital outlay	-	-	-	-	-
Other disbursements	-	1,315,753	1,020,013	-	1,962,238
Total disbursements	-	1,315,753	1,020,013	-	1,962,238
Excess (deficiency) of receipts over disbursements	-	271,730	61,259	160,000	767,286
Cash and investments - ending	\$ 939	\$ 756,826	\$ 302,681	\$ 756,338	\$ 1,289,410

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

	Mississippi Street TIF Debt Service	TIF Debt Service Reserves	Ameriplex At Crossroads	Cumulative Capital Improvement	Cumulative Capital Development
Cash and investments - beginning	\$ 534,646	\$ 197,130	\$ -	\$ 50,451	\$ 321,788
Receipts:					
Taxes	1,272,315	-	614,031	-	279,339
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	-	89,479	18,701
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Other receipts	250,000	276	-	-	16,325
Total receipts	<u>1,522,315</u>	<u>276</u>	<u>614,031</u>	<u>89,479</u>	<u>314,365</u>
Disbursements:					
Personal services	-	-	-	-	-
Supplies	-	-	-	-	-
Other services and charges	-	-	-	-	291,566
Capital outlay	-	-	-	-	-
Other disbursements	1,406,968	-	614,031	-	-
Total disbursements	<u>1,406,968</u>	<u>-</u>	<u>614,031</u>	<u>-</u>	<u>291,566</u>
Excess (deficiency) of receipts over disbursements	<u>115,347</u>	<u>276</u>	<u>-</u>	<u>89,479</u>	<u>22,799</u>
Cash and investments - ending	<u>\$ 649,993</u>	<u>\$ 197,406</u>	<u>\$ -</u>	<u>\$ 139,930</u>	<u>\$ 344,587</u>

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

	Police Equipment	Firefighters Equipment	Redevelopment Commission Bonds 2005	Engineering Fees	Recycling Grant Fund
Cash and investments - beginning	\$ 196,802	\$ 9,410	\$ 193,924	\$ 11,517	\$ 55,453
Receipts:					
Taxes	-	-	-	-	-
Licenses and permits	-	-	-	25,701	-
Intergovernmental	9,989	-	-	-	193,270
Charges for services	41,204	-	-	-	-
Fines and forfeits	17,000	-	-	-	-
Other receipts	142,311	15,870	1,500	-	-
Total receipts	<u>210,504</u>	<u>15,870</u>	<u>1,500</u>	<u>25,701</u>	<u>193,270</u>
Disbursements:					
Personal services	-	-	-	-	153,945
Supplies	24,179	-	-	-	18,586
Other services and charges	23,460	-	744	24,980	11,130
Capital outlay	309,353	19,990	-	-	-
Other disbursements	-	-	1,500	-	-
Total disbursements	<u>356,992</u>	<u>19,990</u>	<u>2,244</u>	<u>24,980</u>	<u>183,661</u>
Excess (deficiency) of receipts over disbursements	<u>(146,488)</u>	<u>(4,120)</u>	<u>(744)</u>	<u>721</u>	<u>9,609</u>
Cash and investments - ending	<u>\$ 50,314</u>	<u>\$ 5,290</u>	<u>\$ 193,180</u>	<u>\$ 12,238</u>	<u>\$ 65,062</u>

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

	Judgment Bond Proceeds	Storm Water Operation Maintenance	Police Pension - 25	Police Pension - PERF	Noxious Weeds Non-Reverting
Cash and investments - beginning	\$ -	\$ (62,547)	\$ (127,600)	\$ 45,654	\$ 12,384
Receipts:					
Taxes	-	1,608,938	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	506	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Other receipts	528,120	661	540,823	132,023	2,274
Total receipts	528,120	1,609,599	541,329	132,023	2,274
Disbursements:					
Personal services	-	223,519	419,301	138,064	8,487
Supplies	-	49,542	-	-	-
Other services and charges	523,000	299,292	25	-	4,904
Capital outlay	-	34,219	-	-	-
Other disbursements	-	-	-	-	-
Total disbursements	523,000	606,572	419,326	138,064	13,391
Excess (deficiency) of receipts over disbursements	5,120	1,003,027	122,003	(6,041)	(11,117)
Cash and investments - ending	\$ 5,120	\$ 940,480	\$ (5,597)	\$ 39,613	\$ 1,267

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

	Payroll	Health Insurance Escrow	Employee Insurance Benefits	Town Court	Totals
Cash and investments - beginning	\$ 304,704	\$ 2,277	\$ 1,548	\$ 352,315	\$ 6,016,160
Receipts:					
Taxes	-	-	-	-	11,855,751
Licenses and permits	-	-	-	-	554,344
Intergovernmental	-	-	-	-	2,757,870
Charges for services	-	-	-	-	455,536
Fines and forfeits	-	-	-	1,589,295	2,142,738
Other receipts	5,891,218	1,845,181	1,465,724	-	24,004,259
Total receipts	5,891,218	1,845,181	1,465,724	1,589,295	41,770,498
Disbursements:					
Personal services	-	-	1,464,415	-	9,330,510
Supplies	-	-	-	-	634,611
Other services and charges	-	-	-	-	4,464,358
Capital outlay	-	-	-	-	1,870,501
Other disbursements	6,062,902	1,847,458	-	1,394,744	21,507,810
Total disbursements	6,062,902	1,847,458	1,464,415	1,394,744	37,807,790
Excess (deficiency) of receipts over disbursements	(171,684)	(2,277)	1,309	194,551	3,962,708
Cash and investments - ending	\$ 133,020	\$ -	\$ 2,857	\$ 546,866	\$ 9,978,868

TOWN OF MERRILLVILLE
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2010

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year	Fund/ Department
Capital leases:			
Mower, Sweeper, Backhoe, Truck, 5 Police Cars	\$ 92,298	\$ 16,438 ***	440
10 Police Cars, Leaf Collector	51,869	32,529 ***	440
2 Trucks, 4 Dump Trucks, Equipment	145,805	49,373 ***	440
Claims and judgments			
Notes and loans payable:			
Mississippi St BAN	1,131,689 *	30,926 **	311
Bonds payable:			
General obligation bonds:			
RDC 2005	6,855,000	841,440	504
GO 2004	3,305,000	550,350	301
GO Judgment Funding 2010	5,120	28,435	506
Revenue bonds:			
Merrillville Rd TIF	2,040,000	188,141	305
Mississippi St TIF	8,280,000	749,068	307
Merrillville Revenue Note	<u>390,000</u>	<u>212,605</u>	101
Total debt	<u>\$ 22,296,781</u>	<u>\$ 2,699,305</u>	

* - This is a line of credit. The amount reported is the amount drawn on the line of credit as of December 31, 2010.

** - Interest paid as of October 11, 2011, on amounts drawn on the line of credit.

*** - Represents amounts due in 2011 and leases that were retired on January 5, 2011.

TOWN OF MERRILLVILLE
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER FINANCIAL REPORTING

An employee in the Clerk-Treasurer's office is responsible for reconciling the bank accounts to the ledger on a monthly basis. According to this employee, the Clerk-Treasurer occasionally reviews the bank reconciliation but does not indicate on the reconciliation that it was reviewed. Furthermore, no other employee of the Town or member of the Town Council reviews the bank reconciliations to ensure that they have been properly and timely prepared, and that reconciliations agree to the ledger balances.

The Town Court collects and retains cash collections in a separate bank account for court fines and fees, and cash bonds. The court distributes the money collected, except for the cash bonds, to the various governmental entities entitled to these funds. The Town Court collections, distributions, and cash balances were not reported in the financial statements.

Thus, the Town underreported cash and investments by \$546,866, and receipts and disbursements by \$1,589,295 and \$1,394,744, respectively. Audit adjustments were made to include the court transactions and balances in the financial statement.

The Town has not established controls to compare reconciled bank account and investment balances to cash and investment balances reported by the Town and the Court in their respective ledgers. Furthermore, upon completion of the financial statements (Cities and Town Annual Report), no one is responsible for ensuring amounts reported are complete by verifying agreement to the reconciled bank account and investment balances.

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 City and Town Courts, Chapter 4)

FEDERAL GRANT SCHEDULE

Federal Audit Information (Federal Grant Schedule) was inaccurate for the year ended December 31, 2010. Town departments were responsible for applying for grants, presenting them to the Town Council, and accounting for the grants they receive. The Clerk-Treasurer's office is responsible for preparing the grant schedule annually based on the grant information provided by each department.

The Federal Grant Schedule presented for audit excluded federal financial assistance totaling \$501,384. Using grant files, ledgers and other documentation, a revised Schedule of Federal Financial Assistance was prepared by examiners.

Controls have not been established by the Town to ensure complete and accurate reporting of federal grant expenditures. The minutes for the Town Council did not acknowledge many of the grants that were received. The individual departments do not have the opportunity to review the information the Clerk-Treasurer presents in the Schedule to ensure all federal awards and expenditures are included and reported based upon their records and reports.

TOWN OF MERRILLVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

The auditee shall:

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. (OMB Circular A-133, Subpart C--Auditees § __.300)

(b) Schedule of Expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. (OMB Circular A-133, Subpart C--Auditees § __.310)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Counties in Indiana, Chapter 1)

INTERNAL CONTROLS OVER RECEIPTS

The Town utilizes computer software to issue and record receipts. The computer software utilized by the Town does not post the transactions until the user "uploads" the transactions. It is the policy of the Town to "upload" transactions once per day. Until the "upload" function is completed, the computer software allows users to delete transactions.

When users delete receipts, a receipt is automatically printed, which is an exact copy of the receipt deleted, with the wording, "COPY DELETED TRANSACTION" (Deleted Receipt). These deleted receipt copies are to be retained for audit with the reports of the receipts that have been uploaded for that date. Users are also to retain and document the original receipt with an explanation as to why the receipt was deleted. In most cases we could locate the original and deleted receipt. The reason provided for deleting a majority of receipts was that the incorrect date was used. When using this software, the user can alter the transaction date if they do not want to use the calendar (today's) date.

During the audit period, each user could delete his or her own receipts without any oversight, review, or approval by management. Additionally, each user had the option of re-using the same receipt number being deleted. When this option was selected, neither the original nor the deleted receipt was retained for audit.

The computer software allows management to monitor the deleted transactions using a "History Audit Report of Deleted Transactions" (History Report); however, management was unaware that such a report existed, therefore no monitoring was performed. Per our review of the History Report, it is not clear as to how reliable the information in the report is. For the year 2010, the report indicates 158 receipts were deleted totaling \$6,167,462.91. Of these deleted receipts, the report also indicates 61 were designated by the user to be reused.

TOWN OF MERRILLVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

After the "upload" is performed to record the receipts, the system allows for any of the receipts to be voided. When a receipt is voided, the clerk writes void on the receipt and provides an explanation for the void. Management can produce a report of voided receipts. The report of voided receipts for the year 2010 indicated that 14 receipts were voided totaling \$631,370.22. In our test of receipts from November, one receipt was marked void. Based upon the explanation provided as the basis for the void, we expected to see a replacement receipt issued to correct the error made. Such a receipt was located for audit, but staff could not readily provide information as to which receipt corrected the error.

Finally, the computer software allows for each user to be issued a unique user id and password. The user id and passwords restrict user access, and will provide identification to management as to which employees performed which tasks. The Town utilizes this control function; however, there is a universal user id and password which is also used for issuing and posting receipts. Most of the receipts entered were entered using the universal id and password. Clerks, when using the universal id and password, are required to enter their initials in the description line of the receipt; however, compliance with the requirement was not consistent. Also, computer generated reports which can be used for management oversight such as the History Report, and report of voided receipts will only identify the user by the universally designed id.

Segregation of duties is the concept of having different people do different tasks within the organization. It provides the foundation of good internal control by assuring that no one individual has the capability to perpetuate and conceal errors or irregularities in the normal course of their authorized duties. Segregation of duties is achieved within information technology systems by appropriate assignment of security profiles that define the data the users can access and the functions that they can perform. Access must be restricted to the minimum required for the user to perform their job function. Access rights must be periodically reviewed and approved by management. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from original source of entry into the system, through all system processing, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing, and to the original source of entry into the system. Audit trails must also identify the user that processed the transaction or updated the information. These audit trails must be protected from modification and deletion. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

The computerized accounting system must provide input edits and controls to assure that information entered into the system is accurate, that all appropriate information is entered into the system, and that information is entered into the system only once. All information entered into the system must be authorized through effective manual or electronic controls. Transaction dates should be based upon system generated dates which cannot be modified by the user. If necessary, the system may provide an additional effective date of the transaction that is user controlled. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

TOWN OF MERRILLVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS OVER PURCHASING

Indiana codes (statutes) provide procedures for Towns to follow for purchasing goods and services, as well as compensating employees and officials. These statutes, when followed, also establish a system of internal controls for monitoring disbursement activities. The State prescribes the use of purchase orders and claims, which includes requisitions to purchase; however, the Town is not properly using purchase orders to assist in monitoring costs incurred and payments made to vendors. Additionally, the Clerk-Treasurer is not providing evidence required by statute to support that he has audited the claims and that amounts to be paid have been deemed allowable.

Prior to any purchase a "Request to Purchase" is to be completed and signed by the person submitting the request. The "Request to Purchase" is then given to the Clerk-Treasurer for approval, which would be noted by his signature on the form. The only signature noted on the form is by the person submitting the request which is usually the department head. Of the 32 claims tested, 30 (or 94 percent) had the "Request for Purchase" signed and dated after the purchase.

The purchase order is to be entered into the computer system prior to purchase. This allows for the appropriation in the fund to be encumbered and to verify that there is an available appropriation balance in the fund to allow for the purchase. Of the 32 claims tested, all of the purchase orders were entered into the system after the invoice date or purchase date. None of the purchase order forms contained any signature identifying the person ordering the goods or services.

All claims are to be allowed for payment by the town council before payment. Also, the Clerk-Treasurer is to certify that the claims are "true and correct" and "have been audited" in accordance with Indiana Code 5-11-10-1.6. To document that the claims have been allowed for payment by the Town Council, and audited by the Clerk-Treasurer, the claims are listed on an "Accounts Payable Register", which is to be signed by the Town Council members and the Clerk-Treasurer during the Town Council meeting. During 2010, 24 listings of claims were presented for signatures authorizing the purchases, 4 of which were not signed by the Clerk-Treasurer. These four listings totaled \$ 14,516,250.53.

Furthermore, all checks (payroll and vendor) are to be signed by the Clerk-Treasurer but the employees of the Clerk-Treasurer's office who also write the checks were authorized to stamp the checks with the Clerk Treasurer's signature stamp.

Because controls over disbursements have not been followed, the Town is at risk of paying for goods and/or services that are not considered necessary, allowable, or authorized.

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

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

- (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;

TOWN OF MERRILLVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

- (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. . . .
- (d) The fiscal officer of a governmental entity shall issue checks or warrants for claims by the governmental entity that meet all of the requirements of this section. The fiscal officer does not incur personal liability for disbursements:
- (1) processed in accordance with this section; and
 - (2) for which funds are appropriated and available.
- (e) The certification provided for in subsection (c)(4) must be on a form prescribed by the state board of accounts."

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS – TOWN COURT

The financial records for the criminal division of the Town Court are maintained electronically. The electronic records include a receipt and a docket. Items recorded in the dockets include: charges filed against the defendant, court dates, fines and fees due and collected, and cash bonds received. The same clerk responsible for collecting all cash bonds was also responsible for establishing electronic dockets and issuing electronically generated receipts. This clerk has the ability to close the electronic dockets, and void receipts, without any oversight or authorization.

The same employee had access to checks, and signature stamps, which allowed the opportunity to issue checks without any oversight or authority.

The financial records for the Civil Division are also maintained electronically using the same computer program. One clerk within the Civil Division was responsible for issuing electronic receipts, and establishing electronic dockets.

Within both divisions (criminal and civil) receipts were also issued which were not electronically generated. The receipts issued were not prenumbered, prescribed, or approved for use by the State Board of Accounts as required by statute. The receipts were a single piece of paper, which had to be copied by the clerk issuing the receipt to be retained until the electronic receipt was issued. Upon issuance of the electronic receipt, the respective clerk responsible for issuing the electronic receipt would dispose of the handwritten receipt copies.

TOWN OF MERRILLVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

These deficiencies in the Court can cause a material misstatement in the financial statements due to the lack of accountability over receipts, lack of management oversight, and segregation of duties.

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 City and Town Courts, Chapter 4)

We recommended that the Town establish controls over the activity of the Court.

OVERDRAWN FUND BALANCES

The Emergency Management Agency and Police Pension-25 funds were overdrawn as of December 31, 2010, by \$6,306 and \$5,597, respectively.

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (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>
Local Roads and Street	2010	\$ 22,182
GO Bond Debt Service	2010	\$33,013

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."

TEMPORARY TRANSFER OF FUNDS

A temporary loan was made in 2005 for \$165,000 from the Cumulative Capital Development Fund to the Cumulative Capital Improvement Fund. The temporary loan had not been repaid as of December 31, 2010.

TOWN OF MERRILLVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

On March 9, 2010, the Town approved Resolution 10-08 for a transfer of \$500,000 from the Mississippi Street TIF Debt Service to the Mississippi Street TIF Project in order to repay a temporary loan. We could not determine when the original loan occurred. Employees of the Clerk-Treasurer's office believe this was an operating transfer; however, a resolution could not be provided for audit to support the transfer being an operating transfer.

Furthermore, we know of no authority which allows for an operating transfer to be made from a debt service fund, which is funded by a tax rate in an amount sufficient to make required bond and interest payments, to a capital projects fund.

Indiana Code 36-1-8-4 concerning temporary transfer 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. . . ."

"(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 the department of local government finance."

Indiana Code 36-1-8-5 states in part:

"(a) This section applies to all funds raised by a general or special tax levy on all the taxable property of a political subdivision. (b) Whenever the purposes of a tax levy have been fulfilled and an unused and unencumbered balance remains in the fund, the fiscal body of the political subdivision shall order the balance of that fund to be transferred as follows, unless a statute provides that it be transferred otherwise: . . . (2) Funds of a municipality, to the general fund or rainy day fund of the municipality. . . ."

TOWN COURT PUBLIC DEFENDER

On March 28, 2000, Town Ordinance Number 00-10 established a Court Public Defender Fund to account for "Court Public Defender Funds and Expenditures. "There was no fee schedule establishing the fee or designating that any remaining cash bond proceeds, after payment of court costs and other fees, be paid to the Court Public Defender Fund. At December 31, 2010, the Court Public Defender Fund cash balance was \$22,310.23. There is no statutory authority for the Town Court of Merrillville to have a supplemental public defender services fund. Indiana Code 33-40-3-10(a), which applies to Lake County, allows cities to set up such a fund, but towns are not mentioned in this section.

TOWN OF MERRILLVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 33-40-3-5 provides that the county can set up one such program of " . . . providing court appointed legal services in the county, . . ." which would include the Town of Merrillville. The county is required to provide public defender service to the Town because the legislature has provided this as the only option in Lake County. [IC 33-40-7-5]

The funds currently held by the Town to pay public defenders should be remitted to the county. [IC 35-33-8-3.2(b)]

Indiana Code 33-40-3-10(a) states in part:

"In a county with a population of more than four hundred thousand (400,000) and less than seven hundred thousand (700,000) in which a county public defender service is not provided, a supplemental public defender services fund must be established in each city for providing funding for a public defender to represent indigent defendants in a city court."

Indiana Code 33-40-3-5 states in part:

"A county may not have more than one (1) program providing court appointed legal services in the county, unless the fiscal body of the county agrees to allow additional court appointed legal services programs in the county."

Indiana Code 33-40-7-5 states in part:

"The board shall prepare a comprehensive plan that must include at least one (1) of the following methods of providing legal defense services to indigent persons: . . . (4) In a county described in section 1(3) of this chapter, establishing a public defender's office for the criminal division of the superior court."

Indiana Code 35-33-8-3.2(b) states:

"Within thirty (30) days after disposition of the charges against the defendant, the court that admitted the defendant to bail shall order the clerk to remit the amount of the deposit remaining under subsection (a)(2) to the defendant. The portion of the deposit that is not remitted to the defendant shall be deposited by the clerk in the supplemental public defender services fund established under IC 33-40-3."

DORMANT FUNDS

The Town had the following funds that had balances but no activity for at least the last two years:

Economic Development Commission
Special Projects
Town Party Donations
New Town Hall Donation

There are additional funds that were not reported, but have not been closed per the Town's electronically maintained computer software. These additional funds did not have any financial activity nor were there any cash and investment balances to be reported.

TOWN OF MERRILLVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 36-1-8-5 states in part:

"(a) This section applies to all funds raised by a general or special tax levy on all the taxable property of a political subdivision. (b) Whenever the purposes of a tax levy have been fulfilled and an unused and unencumbered balance remains in the fund, the fiscal body of the political subdivision shall order the balance of that fund to be transferred as follows, unless a statute provides that it be transferred otherwise: . . . (2) Funds of a municipality, to the general fund or rainy day fund of the municipality. . . ."

DELINQUENT EMERGENCY MEDICAL SERVICES ACCOUNTS RECEIVABLE

The Town bills patrons for ambulance services provided by the Town. At the time of the billing, until the service is paid for by the patron or his insurance provider, the amount due the Town is considered an accounts receivable.

At December 31, 2010, the Town included \$1,896,149 in their accounts receivable balance. This balance is from billings with service dates from January 3, 1999 through January 29, 2008. During 2009 and 2010, the Town did not write off any uncollectible accounts. The Town's Ordinance No. 04-23 states in part: "The Clerk-Treasurer on an annual basis shall submit to the Town Council of Merrillville a list of the uncollectible billings from the Emergency Medical Services. The Merrillville Town Council by majority vote shall waive these uncollectible billings."

Furthermore, no past due notices were mailed in 2010.

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)

PARK FEES AND COMPLIANCE WITH THE ORDINANCE

The Town Council adopted Ordinance 09-47, which established the fees to be charged for park programs for the year 2010. Per the Ordinance different fees were to be charged based upon residency, which was not indicated on the receipts. Thus, we could not determine if the correct fees were being charged for the various programs.

For the Summer Day Camp (Kidz Zone), fees collected did not agree to either residency category established by the ordinance. In all instances tested, the fees charged were less than the fees established for the "resident" category.

Some receipts indicated fees for multiple programs, but a breakdown was not provided. Also, some participants were allowed to pay a "per day" fee for such items as Yoga; however, a "per day" or "per session" fee was not addressed in the Ordinance.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF MERRILLVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

INTERNAL CONTROLS AT THE PARK

Per Ordinance 09-47, the Town allows park patrons to rent the hall, the gazebo, or a picnic shelter. Patrons are required to complete a "Request for Building Use" form (Agreement), which indicates their address, date of event, and hours. The rental fee, when collected, is handwritten on the Agreement by a park department employee as well as the receipt number. The "Request for Building Use" forms in use are not prenumbered. For 2010, only two "Request for Building Use" forms were presented for audit; however, fees were collected on three separate occasions. In 2010, shelter rental fees collected totaled \$275, but in 2009 the fees were \$1,380 and in 2008 the fees were \$2,157.50. An explanation for the significant drop in shelter revenue could not be provided.

The Agreements presented for audit do not provide enough information to determine if the correct rental fees are being charged. Such information would include the hours of use, and the facility being rented.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE TOWN OF MERRILLVILLE, LAKE COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Merrillville (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 its major federal program for the year ended December 31, 2010. 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 its major federal program 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.

As described in items 2010-6 and 2010-7 in the accompanying Schedule of Findings and Questioned Costs, the Town did not comply with requirements regarding cash management, and special test and provisions that are applicable to its Highway Planning and Construction Cluster. Compliance with such requirements is necessary, in our opinion, for the Town to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Town complied, in all material respects, with the other requirements that are applicable to its major federal program for the year ended December 31, 2010.

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

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.

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 items 2010-6 and 2010-7 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, 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

October 13, 2011

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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 MERRILLVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2010

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
<u>U.S. DEPARTMENT OF NATURAL RESOURCES</u>			
Pass-Through Indiana Department of Natural Resources			
Coastal Zone Management Administration Awards	11.419		
Lake Michigan Coastal Grants Program			
Pruzin Park Habitat Restoration and Education		CZ0812	\$ 5,824
Total for federal grantor agency			<u>5,824</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct			
Bulletproof Vest Partnership Program	16.607		
2010 Bulletproof Vest Partnership Program			<u>3,619</u>
Total for program			<u>3,619</u>
ARRA Public Safety Partnership and Community Policing Grants - Recovery	16.710		
2009 COPS Hiring Recovery Program		2009-RK-WX-0346	<u>183,708</u>
Total for program			<u>183,708</u>
Federal Equity Sharing	16.XXX		
Federal Forfeitures			<u>36,624</u>
Total for program			<u>36,624</u>
Pass-Through Indiana Criminal Justice Institute			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		
JAG - FY 2009 Edward Byrne Memorial Justice Assistance			
Grant (JAG) 10K and Under Program		09-DJ-042	<u>9,989</u>
Total for program			<u>9,989</u>
Total for federal grantor agency			<u>233,940</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Department of Transportation			
Highway Planning and Construction Cluster	20.205		
ARRA Highway Planning and Construction			
Surface Treatment 73rd Avenue		0900429	<u>28,292</u>
Highway Planning and Construction			
Road Rehabilitation for 61st Avenue - Intersection Improvement (STP-9945)		0501003	262,640
81st Avenue Right-of-Ways HES-9945 (00W)		0901454	39,693
US 30 and Adjacent Frontage Roads		0501098	10,324
Construction Inspection - Traffic Signal at Kmart Drive		0501099	11,780
Construction Inspection - Frontage Road Improvement and Median Crossover		0501100	103,833
Construction Inspection - Traffic Signal at Taney Place		0501102	<u>2,374</u>
Total for program			<u>430,644</u>
Total for cluster			<u>458,936</u>
Pass-Through Indiana Criminal Justice Institute			
Highway Safety Cluster			
State and Community Highway Safety	20.600		
Big City/Big County Enforcement Program			6,000
Operation Pullover		PT-11-04-04-26 FY 2010	<u>14,500</u>
Total for cluster			<u>20,500</u>
Total for federal grantor agency			<u>479,436</u>
Total federal awards expended			<u>\$ 719,200</u>

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

TOWN OF MERRILLVILLE
NOTE 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 Merrillville (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.

TOWN OF MERRILLVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiency identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiency identified?	none reported
Type of auditor's report issued on compliance for major programs:	Qualified
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 _____

Highway Planning and Construction 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 2010-01 - INTERNAL CONTROLS OVER FINANCIAL REPORTING

An employee in the Clerk-Treasurer's office is responsible for reconciling the bank accounts to the ledger on a monthly basis. According to this employee, the Clerk-Treasurer occasionally reviews the bank reconciliation but does not indicate on the reconciliation that it was reviewed. Furthermore, no other employee of the Town or member of the Town Council reviews the bank reconciliations to ensure that they have been properly and timely prepared, and that reconciliations agree to the ledger balances.

The Town Court collects and retains cash collections in a separate bank account for court fines and fees, and cash bonds. The court distributes the money collected, except for the cash bonds, to the various governmental entities entitled to these funds. The Town Court collections, distributions, and cash balances were not reported in the financial statements.

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

Thus, the Town underreported cash and investments by \$546,866, and receipts and disbursements by \$1,589,295 and \$1,394,744, respectively. Audit adjustments were made to include the court transactions and balances in the financial statement.

The Town has not established controls to compare reconciled bank account and investment balances to cash and investment balances reported by the Town and the Court in their respective ledgers. Furthermore, upon completion of the financial statements (Cities and Town Annual Report), no one is responsible for ensuring amounts reported are complete by verifying agreement to the reconciled bank account and investment balances.

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 City and Town Courts, Chapter 4)

We recommended that the Town establish controls to ensure that bank accounts are reconciled timely, that reconciled balances agree to the ledgers, and to ensure that all financial activities are reported at year end in the financial statements of the Town.

FINDING 2010-02 - FEDERAL GRANT SCHEDULE

Federal Audit Information (Federal Grant Schedule) was inaccurate for the year ended December 31, 2010. Town departments were responsible for applying for grants, presenting them to the Town Council, and accounting for the grants they receive. The Clerk Treasurer's office is responsible for preparing the grant schedule annually based on the grant information provided by each department.

The Federal Grant Schedule presented for audit excluded federal financial assistance totaling \$501,384. Using grant files, ledgers and other documentation, a revised Schedule of Federal Financial Assistance was prepared by examiners.

Controls have not been established by the Town to ensure complete and accurate reporting of federal grant expenditures. The minutes for the Town Council did not acknowledge many of the grants that were received. The individual departments do not have the opportunity to review the information the Clerk-Treasurer presents in the Schedule to ensure all federal awards and expenditures are included and reported based upon their records and reports.

The auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. (OMB Circular A-133, Subpart C-- Auditees § __ .300)

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

(b) Schedule of Expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. (OMB Circular A-133, Subpart C--Auditees § __.310)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Counties in Indiana, Chapter 1)

We recommended that the Town establish procedures to ensure that the grant awards are presented to the Town Council and that the financial information reported on the Cities and Town Annual Report is accurate.

FINDING 2010-03 – INTERNAL CONTROLS OVER RECEIPTS

The Town utilizes computer software to issue and record receipts. The computer software utilized by the Town does not post the transactions until the user "uploads" the transactions. It is the policy of the Town to "upload" transactions once per day. Until the "upload" function is completed, the computer software allows users to delete transactions.

When users delete receipts, a receipt is automatically printed, which is an exact copy of the receipt deleted, with the wording, "COPY DELETED TRANSACTION" (Deleted Receipt). These deleted receipt copies are to be retained for audit with the reports of the receipts that have been uploaded for that date. Users are also to retain and document the original receipt with an explanation as to why the receipt was deleted. In most cases we could locate the original and deleted receipt. The reason provided for deleting a majority of receipts was that the incorrect date was used. When using this software, the user can alter the transaction date if they do not want to use the calendar (today's) date.

During the audit period, each user could delete his or her own receipts without any oversight, review, or approval by management. Additionally, each user had the option of re-using the same receipt number being deleted. When this option was selected, neither the original nor the deleted receipt was retained for audit.

The computer software allows management to monitor the deleted transactions using a "History Audit Report of Deleted Transactions" (History Report); however, management was unaware that such a report existed, therefore no monitoring was performed. Per our review of the History Report, it is not clear as to how reliable the information in the report is. For the year 2010, the report indicates 158 receipts were deleted totaling \$6,167,462.91. Of these deleted receipts, the report also indicates 61 were designated by the user to be reused.

After the "upload" is performed to record the receipts, the system allows for any of the receipts to be voided. When a receipt is voided, the clerk writes void on the receipt and provides an explanation for the void. Management can produce a report of voided receipts. The report of voided receipts for the year 2010 indicated that 14 receipts were voided totaling \$631,370.22. In our test of receipts from November,

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

one receipt was marked void. Based upon the explanation provided as the basis for the void, we expected to see a replacement receipt issued to correct the error made. Such a receipt was located for audit, but staff could not readily provide information as to which receipt corrected the error.

Finally, the computer software allows for each user to be issued a unique user id and password. The user id and passwords restrict user access, and will provide identification to management as to which employees performed which tasks. The Town utilizes this control function; however, there is a universal user id and password which is also used for issuing and posting receipts. Most of the receipts entered were entered using the universal id and password. Clerks, when using the universal id and password, are required to enter their initials in the description line of the receipt, however, compliance with the requirement was not consistent. Also, computer generated reports which can be used for management oversight such as the History Report, and report of voided receipts will only identify the user by the universally designed id.

Segregation of duties is the concept of having different people do different tasks within the organization. It provides the foundation of good internal control by assuring that no one individual has the capability to perpetuate and conceal errors or irregularities in the normal course of their authorized duties. Segregation of duties is achieved within information technology systems by appropriate assignment of security profiles that define the data the users can access and the functions that they can perform. Access must be restricted to the minimum required for the user to perform their job function. Access rights must be periodically reviewed and approved by management. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from original source of entry into the system, through all system processing, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing, and to the original source of entry into the system. Audit trails must also identify the user that processed the transaction or updated the information. These audit trails must be protected from modification and deletion. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

The computerized accounting system must provide input edits and controls to assure that information entered into the system is accurate, that all appropriate information is entered into the system, and that information is entered into the system only once. All information entered into the system must be authorized through effective manual or electronic controls. Transaction dates should be based upon system generated dates which cannot be modified by the user. If necessary, the system may provide an additional effective date of the transaction that is user controlled. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

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)

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

We recommended that officials discontinue the practice of deleting receipts and of allowing deleted receipt numbers to be reused. Corrections to receipt transactions should be performed through voids, which should be properly documented and approved by management. The universal user ids and passwords should be removed from the system so that users will be forced to use their unique user ids and passwords, so that transactions entered in the system can be properly identified and monitored. Management should be printing, reviewing, and retaining the History Reports, and reports of voided receipts to ensure compliance with policies regarding issuance and posting of receipts.

FINDING 2010-04 - INTERNAL CONTROLS OVER PURCHASING

Indiana codes (statutes) provide procedures for Towns to follow for purchasing goods and services, as well as compensating employees and officials. These statutes, when followed, also establish a system of internal controls for monitoring disbursement activities. The State prescribes the use of purchase orders and claims, which includes requisitions to purchase; however, the Town is not properly using purchase orders to assist in monitoring costs incurred and payments made to vendors. Additionally, the Clerk-Treasurer is not providing evidence required by statute to support that he has audited the claims and that amounts to be paid have been deemed allowable.

Prior to any purchase a "Request to Purchase" is to be completed and signed by the person submitting the request. The "Request to Purchase" is then given to the Clerk-Treasurer for approval, which would be noted by his signature on the form. The only signature noted on the form is by the person submitting the request which is usually the department head. Of the 32 claims tested, 30 (or 94 percent) had the "Request for Purchase" signed and dated after the purchase.

The purchase order is to be entered into the computer system prior to purchase. This allows for the appropriation in the fund to be encumbered and to verify that there is an available appropriation balance in the fund to allow for the purchase. Of the 32 claims tested, all of the purchase orders were entered into the system after the invoice date or purchase date. None of the purchase order forms contained any signature identifying the person ordering the goods or services.

All claims are to be allowed for payment by the Town Council before payment. Also, the Clerk-Treasurer is to certify that the claims are "true and correct" and "have been audited" in accordance with Indiana Code 5-11-10-1.6. To document that the claims have been allowed for payment by the Town Council, and audited by the Clerk-Treasurer, the claims are listed on an "Accounts Payable Register", which is to be signed by the Town Council members and the Clerk-Treasurer during the Town Council meeting. During 2010, 24 listings of claims were presented for signatures authorizing the purchases, 4 of which were not signed by the Clerk-Treasurer. These four listings totaled \$ 14,516,250.53.

Furthermore, all checks (payroll and vendor) are to be signed by the Clerk-Treasurer but the employees of the Clerk-Treasurer's office who also write the checks were authorized to stamp the checks with the Clerk Treasurer's signature stamp.

Because controls over disbursements have not been followed, the Town is at risk of paying for goods and/or services that are not considered necessary, allowable, or authorized.

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

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

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

- (6) there is a fully itemized invoice or bill for the claim;
- (7) the invoice or bill is approved by the officer or person receiving the goods and services;
- (8) the invoice or bill is filed with the governmental entity's fiscal officer;
- (9) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (10) 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. . . .

(d) The fiscal officer of a governmental entity shall issue checks or warrants for claims by the governmental entity that meet all of the requirements of this section. The fiscal officer does not incur personal liability for disbursements:

- (3) processed in accordance with this section; and
- (4) for which funds are appropriated and available.

(e) The certification provided for in subsection (c)(4) must be on a form prescribed by the state board of accounts."

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We recommended that the Town establish and follow procedures for purchasing and disbursements.

FINDING 2010-05 - INTERNAL CONTROLS – TOWN COURT

The financial records for the criminal division of the Town Court are maintained electronically. The electronic records include a receipt and a docket. Items recorded in the dockets include: charges filed against the defendant, court dates, fines and fees due and collected, and cash bonds received. The same clerk responsible for collecting all cash bonds was also responsible for establishing electronic dockets and issuing electronically generated receipts. This clerk has the ability to close the electronic dockets, and void receipts, without any oversight or authorization.

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

The same employee had access to checks, and signature stamps, which allowed the opportunity to issue checks without any oversight or authority.

The financial records for the Civil Division are also maintained electronically using the same computer program. One clerk within the Civil Division was responsible for issuing electronic receipts, and establishing electronic docket.

Within both divisions (criminal and civil) receipts were also issued which were not electronically generated. The receipts issued were not prenumbered, prescribed, or approved for use by the State Board of Accounts as required by statute. The receipts were a single piece of paper, which had to be copied by the clerk issuing the receipt to be retained until the electronic receipt was issued. Upon issuance of the electronic receipt, the respective clerk responsible for issuing the electronic receipt would dispose of the handwritten receipt copies.

These deficiencies in the Court can cause a material misstatement in the financial statements due to the lack of accountability over receipts, lack of management oversight, and segregation of duties.

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 City and Town Courts, Chapter 4)

We recommended that the Town establish controls over the activity of the Court.

Section III – Federal Award Findings and Questioned Costs

FINDING 2010-06 - CONTROLS RELATED TO ALLOWABLE COSTS AND CASH MANAGEMENT AND COMPLIANCE RELATED TO SPECIAL TESTS AND PROVISIONS

Federal Agency: U.S. Department of Transportation
Federal Program: Highway Planning and Construction Cluster
CFDA No: 20.205
Pass-Through Agency: Indiana Department of Transportation
Award Numbers: A249-10-320882, A249-09-320613, A249-07-320173, and A249-09-321036

The Town has not established internal controls to allow for proper monitoring of federal expenditures as it relates to allowable costs and cash management compliance requirements. Such controls include establishing separate funds to account for the activities of the federal grant programs, adopting budgets (appropriations) for the grant programs, and following prescribed purchasing procedures. Also, in order to comply with special tests and provisions over reporting and accounting for ARRA funds, the Town is required to establish separate funds to account for the activities related to ARRA funding.

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

The Town has not established separate funds to account for federal grant funds related to the Highway Planning and Construction Cluster. Disbursements related to the ARRA Highway Planning and Construction Grants are paid from the Casino Fund (268). Non-ARRA Highway Planning and Construction Grants are being paid from the Merrillville Road TIF Project Fund (304) and from the Mississippi Street TIF Project (308). All three funds also account for receipts and disbursements which are not related to the federal grant programs. By not maintaining separate funds to account for the federal grant activities, officials cannot adequately monitor payments made to contractors. For example, the Town contracts with engineering firms to oversee and inspect the construction activities. The Town relies upon the Engineering firm's invoices to adequately report prior amounts billed and paid, as well as amounts remaining available to them under the contract award. Because separate funds have not been established, the Town cannot properly monitor or report each grant program's receipts, disbursements, and cash balances.

Additionally, by not establishing separate funds to account for the federal grant funds, separate budgets or appropriations for the various grant projects have not been established. Budgets have been adopted for the Casino, Merrillville Road TIF Project, and Mississippi Street TIF Project Funds, but the budgets are for the overall fund activities. These funds also account for activities which are not associated with the projects being financed with federal funds.

To assist officials in establishing controls and monitoring disbursement activities, the State prescribes the use of purchase orders; however, the Town is not properly using purchase orders to assist in monitoring costs incurred and payments made to vendors. The Director of Public Works receives invoices for payment of engineering and right-of-way services from vendors which he uses to prepare the Claims for Reimbursement of the federal highway grant dollars. Then, he prepares a "Request to Purchase" on which he lists the vendor invoice numbers, and the dollar amounts. This document is signed by the Director of Public Works. From this document a purchase order is printed by the Clerk-Treasurer's Office, as well as the accounts payable voucher. The vendor invoices, "Request to Purchase", and purchase order are attached to the accounts payable voucher for approval to pay by the Town Council, and authorization to pay by the Clerk-Treasurer.

When the purchase order process is used correctly, the "Request to Purchase" would be prepared by the department to document the intent to purchase a good or service. The estimated cost of the good or service would be indicated on the form and posted against the budget to document a pending disbursement. This system allows for officials to monitor not only budget activities, but it also serves as a control for monitoring payments made to vendors as well as pending payments.

Purchase orders issued on bids and contracts must be delivered to the vendor within thirty (30) days after acceptance by the board. [Indiana Code 5-22-18-5]

The original copy of a purchase order must be given to the vendor at the time of purchase.

The original purchase order issued to the vendor at the time the purchase is made must accompany the bill or invoice and accounts payable voucher to the department before payment is made, or the number thereof must be shown on the bill or invoice and accounts payable voucher.

An itemized accounts payable voucher covering the purchase must be filed with the department after delivery is made.

It will be observed that there is a sequence of time that must be followed. The order comes first, in the same manner as though an order was being made from a catalog. The Clerk-Treasurer must be advised of the order so that the fund will be encumbered and not obligated more than once. The bill or invoice and accounts payable voucher must be fully prepared, not just a statement of account.

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

It is to the advantage of the Clerk-Treasurer to know at all times what purchases have been entered into and how the appropriation ledger stands, for purposes of anticipating the year's needs. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

Title 49 § 18.20 states in part:

"(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to—

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) *Internal control.* Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- (4) *Budget control.* Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible."

We recommended that the Town establish separate funds to account for the federal grant funds. The town should comply with state statutes over purchasing procedures to ensure controls established by those same statutes are being adhered to.

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

FINDING 2010-07 - COMPLIANCE RELATED TO CASH MANAGEMENT

Federal Agency: U.S. Department of Transportation
 Federal Program: Highway Planning and Construction Cluster
 CFDA Number: 20.205
 Pass-Through Agency: Indiana Department of Transportation
 Award Numbers: A249-10-320882

The grant agreement the Town signed with the Indiana Department of Transportation stated, "When submitting invoices to INDOT for right-of-way the LPA will furnish evidence showing that the LPA has made payment for all costs for which reimbursement is being invoiced."

The Town does not separately account for the federal grant receipts and disbursements, and one individual is responsible for monitoring the receipt and disbursement of the grant funds. It is this same individual who prepares and signs the claims for reimbursement of federal highway funds. There is no oversight to ensure vendors are being paid prior to claims being submitted for reimbursement. Additionally, no one is comparing amounts received as reimbursement to amounts paid to vendors to ensure vendors are being paid timely.

The Town paid 26 vendor invoices after receiving the related reimbursement. Some were paid within a few days of receiving the reimbursement while others were held up to 334 days prior to payment being made. The following table provides some examples:

<u>Project Number</u>	<u>Invoice Date</u>	<u>Date Received Reimbursement</u>	<u>Check Date to Pay Invoice</u>	<u>Invoice Amount</u>
0501098	08-30-10	09-24-10	08-24-11	\$ 439.88
0501100	08-30-10	09-30-10	08-24-11	21,194.53
0501100	10-28-10	12-17-10	08-24-11	3,967.48
0501100	11-19-10	12-27-10	08-24-11	23,409.33

Additionally, some amounts received by the Town in September 2010 and February 2011 were not found to have been paid to vendors as of September 13, 2011, as follows:

<u>Project Number</u>	<u>Invoice Date</u>	<u>Date Received Reimbursement</u>	<u>Invoice Amount</u>
0501099	08-30-10	09-24-10	\$ 297.92
0501102	08-30-10	09-24-10	283.52
0501102	04-26-11	07-12-11	768.32
0501100	01-04-11	02-10-11	21,935.66

Title 49 § 18.20 states in part:

"(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to—

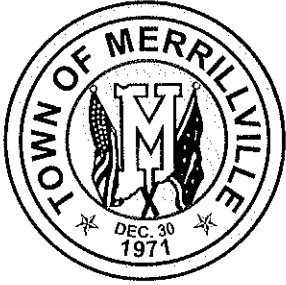
TOWN OF MERRILLVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
 - (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
- (b) The financial management systems of other grantees and subgrantees must meet the following standards: . . .
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
 - (3) *Internal control.* Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes."

We recommended that the Town establish procedures to ensure vendors are paid prior to the claim for reimbursement being filed. Separate funds or accounts should be established to account for the federal grant funds. Furthermore, officials should be comparing amounts received to amounts disbursed to ensure federal funds are disbursed timely.

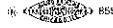
TOWN OF MERRILLVILLE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.



Town of Merrillville

7820 BROADWAY
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EUGENE M. GUERNSEY
CLERK - TREASURER

FINDING NO. 2010-01, INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Town of Merrillville's bank accounts are reconciled at the first of every month for the preceding month. The Clerk-Treasurer has implemented a routine that will allow the office manager to set a time frame bi-weekly to have him review & sign all documents pertaining to bank reconcilements.

The Clerk-Treasurer's office has a fairly new Bookkeeper who is still learning her job duties; Mr. Guernsey has gone over her responsibilities again to ensure that she is including Town Court collections into the annual report.

FINDING NO. 2010-02, FEDERAL GRANT SCHEDULE

A memo will be going out to all departments reminding them that it is mandatory to submit all applications and grant information to the Bookkeeper and Town Council. The Bookkeeper has been informed of the importance and need in preparing the annual grant schedule and complete and accurate reporting of the grant expenditures, as well as submitting a grant schedule report to the departments heads in order to ensure that all federal awards and expenditures are included and reported based upon their records and reports.

FINDING NO. 2010-03,

Management does monitor the deleted transactions and was aware of the "History Audit Report of Deleted Transactions" and gave a copy of that report to the examiners for their audit. The report indicates 158 deleted receipts totaling \$6,167,462.91 but does not indicate the corrected receipt or copy which was explained and showed to the examiners through the updated reports for the day. The same goes for the system report provided for the 14 voided receipts totaling \$631,370.22. The one receipt voided in November that was tested, the staff could not readily provide information as to which receipt corrected the error because the examiners had all the paperwork. After reviewing archived data in the Budget program, staff produced a report accounting for the correction and referencing the corrected receipt that was in the files the examiner's had.

Our computerized accounting system currently maintains electronic audit trails sufficient to trace all transactions from original source of entry and maintains sufficient information to trace the transactions and are protected from modification and deletion. When using the universal id and password used for issuing and posting receipts, the clerks initialed the receipts, we were told by last years state examiner that this was sufficient as long as it was tracked in some way as to who

issued the receipt; however, the universal id has now been disabled and each clerk has their own username and password. The Clerk-Treasurer staff access rights are set to the minimum requirement for the user to perform their job, limiting their access any further would require the entire program to be revised at a cost to the Town. Management also prints, reviews and retains history reports and reports of voided receipts. We have taken the recommendation of the examiners and have discontinued the practice of deleting receipts that had date or typographical errors.

FINDING NO. 2010-04 INTERNAL CONTROLS OVER PURCHASING

The Clerk-Treasurer is now checking and signing all requests prior to submission of the APV and he is also signing all the APV register's in order to provide support that he has approved the payment of the APV's.

The Council has been notified with regards to the issue of purchase orders being entered into the system after items have already been purchased and are currently working on a way to resolve this issue in 2011/2012 budget years.

FINDING NO. 2010-05, INTERNAL CONTROLS- COURT

There has recently been a new Judge and Court Administrator appointed to the Town Court office and they have made changes in order to properly segregate job duties to ensure accountability over the cash transactions of the Court.

FINDING NO. 2010-06, CONTROLS RELATED TO ALLOWABLE COSTS AND CASH MANAGEMENT AND COMPLIANCE RELATED TO SPECIAL TESTS AND PROVISIONS

Federal Agency: U.S. Department of Transportation

Federal Program: Highway Planning & Construction

CFDA No. 20.205

Pass-Through Agency: Indiana Department of Transportation

Award Numbers: A249-10-320882, A249-09-320613, A249-07-320173, and A249-09-321036

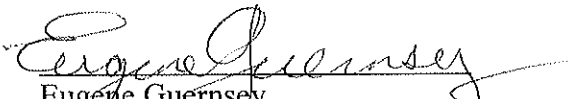
The Public Works Director and Bookkeeper have established internal controls allowing for proper monitoring of federal expenditures relating to allowable costs and cash management compliance requirements. They have currently set up separate appropriations within the fund that are set aside specifically for the expenditure of each individual grant.

FINDING NO. 2010-07, COMPLIANCE RELATED TO CASH MANAGEMENT

Federal Agency: U.S. Department of Transportation
Federal Program: Highway Planning & Construction Cluster
CFDA No. 20.205
Pass-Through Agency: Indiana Department of Transportation
Award Numbers: A249-10-320882

The Public Works Director has been aware of the issue with regards to late payment of INDOT invoices; there was an issue with a former employee not properly submitting bills to the Clerk-Treasurer's office and that problem has since been rectified. He also had an issue with a few of the companies not properly billing the Town of Merrillville the outstanding amounts owed. He has requested that they provide him with monthly bills as well as statements to ensure current standing on debt owed. The Public Works Director has since established procedures with the Bookkeeper to ensure vendors are being paid as well as comparing monthly fund and appropriation reports of amounts received to amounts disbursed to ensure the timely disbursement of federal funds.

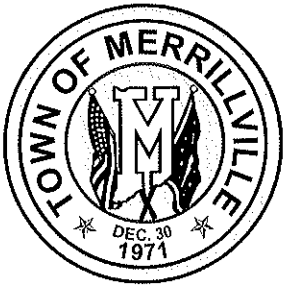
Sincerely,


Eugene Guernsey
Clerk-Treasurer,
Town of Merrillville

September 27, 2011
Date

TOWN OF MERRILLVILLE
EXIT CONFERENCE

The contents of this report were discussed on October 13, 2011, with Eugene M. Guernsey, Clerk-Treasurer; Katie Minchuk, Office Manager; Diane Plikuhn, Bookkeeper; Tom Goralczyk, President of the Town Council; and Howard Fink, Town Administrator. The official response has been made a part of this report and may be found on pages 62 through 64.



Town of Merrillville

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EUGENE M. GUERNSEY
CLERK - TREASURER

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Town of Merrillville's bank accounts are reconciled at the first of every month for the preceding month. The Clerk-Treasurer has implemented a routine that will allow the office manager to set a bi-weekly time frame to have him review & sign all documents pertaining to bank reconcilements.

The Clerk-Treasurer's office has a fairly new Bookkeeper who is still learning her job duties. Mr. Guernsey has gone over her responsibilities again to ensure that she is including Town Court collections into the annual report.

FEDERAL GRANT SCHEDULE

A memo will be going out to all departments reminding them that it is mandatory to submit all applications and grant information to the Bookkeeper and Town Council. The Bookkeeper has been informed of the importance and need in preparing the annual grant schedule and complete an accurate reporting of grant expenditures, as well as submitting a grant schedule report to the departments heads to ensure that all federal awards and expenditures are included and reported based upon their records and reports.

INTERNAL CONTROLS OVER RECEIPTS

Management does monitor the deleted transactions and was aware of the "History Audit Report of Deleted Transactions" and gave a copy of that report to the examiners. The report indicates 158 deleted receipts totaling \$6,167,462.91 but does not indicate the corrected receipt. The corrected receipts were explained and shown to the examiners via the daily updated reports. The same goes for the system report provided for the 14 voided receipts totaling \$631,370.22. With respect to the one receipt voided in November that was tested, the staff could not readily provide information as to which receipt corrected the error because the examiners had all the paperwork. After reviewing archived data in the Budget program, the staff produced a report that accounted for the correction and referenced the corrected receipt. This receipt was already in the examiners possession.

Our computerized accounting system currently maintains electronic audit trails sufficient to trace all transactions from their original source of entry. The system maintains sufficient information to trace the transactions. The electronic audit trails are protected from modification and deletion. When using the universal id and password used for issuing and posting receipts, the clerks initial the receipts because we were told by last years state examiner that this was a sufficient way of

tracking which employee entered the receipt; However, the universal id has now been disabled and each clerk has their own username and password. The Clerk-Treasurer staff access rights are set to the minimum requirement for the user to perform their job. Limiting their access any further would require the entire program to be revised at a significant cost to the Town. Management also prints, reviews and retains history reports and voided receipts reports. We have taken the recommendation of the examiners and have discontinued the practice of deleting receipts that had date or typographical errors.

INTERNAL CONTROLS OVER PURCHASING

The Clerk-Treasurer is now checking and signing all requests prior to submission of the APV and is also signing all the APV registers.

The Council has been notified with regards to the issue of purchase orders being entered into the system after items have already been purchased and are currently working on a way to resolve this issue in 2011/2012 budget years.

INTERNAL CONTROLS- TOWN COURT

There has been a new Judge and Court Administrator appointed to the Town Court office and they have made changes in order to properly segregate job duties to ensure accountability over the cash transactions of the Court.

OVERDRAWN FUND BALANCES

The Police Pension-25 fund was overdrawn due to a delay in receiving monies allocated for that fund and has been brought back to being positive.

The EMA fund was overdrawn because of budgeting errors and has been corrected.

APPROPRIATIONS

The expenditures in excess of budgeted appropriations have been discussed with the directors and corrected.

TEMPORARY TRANSFER OF FUNDS

The Town is aware of the unpaid temporary loan, and they are working on necessary transactions to rectify the outstanding loan.

The Town is researching the documents and will make the necessary corrections.

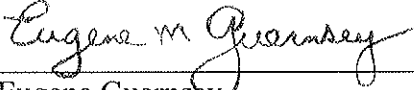
DORMANT FUNDS

The listed funds have now been transferred and closed.

DELINQUENT EMERGENCY MEDICAL SERVICES ACCOUNTS RECEIVABLE

The Town closed the EMS Department; Therefore, there is no billing clerk to issue past due notices. The Council is looking into considering outsourcing this billing prior to writing off the uncollectible bills.

Sincerely,



Eugene Guernsey
Clerk-Treasurer,
Town of Merrillville

October 19, 2011
Date