

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF JEFFERSONVILLE

CLARK COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
01/27/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Amy M. Deering Heather Metcalf	01-01-15 to 01-20-16 01-21-16 to 12-31-16
Mayor	Mike Moore	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Mike Moore	01-01-12 to 12-31-19
President of the Common Council	Lisa Gill Matt Owen	01-01-15 to 12-31-15 01-01-16 to 12-31-16
Utility Office Manager	Elisha Dale	01-01-15 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF JEFFERSONVILLE, CLARK COUNTY, INDIANA

This report is supplemental to our audit report of the City of Jeffersonville (City), for the period from January 1, 2015 to December 31, 2015. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

The Federal Findings, identified in the above referenced audit report, are included in this report and should be viewed in conjunction with the Audit Results and Comments as described below.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Corrective Action Plan for the Federal Findings and Official Response to the Audit Results and Comments, incorporated within this report, were not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

December 15, 2016

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CONTROLLER
CITY OF JEFFERSONVILLE

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FEDERAL FINDINGS

FINDING 2015-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Condition

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The City's Accountant prepared and entered the SEFA via the Gateway system. There were no controls in place to ensure the SEFA was accurate.

Criteria

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)

Cause

Management had not established a system of internal control that would ensure proper reporting of the SEFA.

Effect

Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

**FINDING 2015-002 - INTERNAL CONTROLS AND NONCOMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING**

Condition

The following deficiencies related to financial transactions and reporting:

1. Lack of Segregation of Duties: Management of the City had not established an internal control system that included segregation of duties over receipts. During the audit period, City receipts were collected and posted to the records by the same individual that made the daily deposits without any oversight or reviews being performed.

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CITY OF JEFFERSONVILLE
FEDERAL FINDINGS
(Continued)

2. Transaction Recording: The City had not developed controls to ensure all financial transactions of the City and Wastewater Utility were accurately reported in the City's Annual Financial Report (AFR). The City used the accrual basis of accounting. Adjustments to convert actual amounts to cash basis for the AFR were incorrectly made, resulting in an understatement of receipts and disbursements of \$3,319,643 and \$3,301,307, respectively. Audit adjustments were proposed, accepted by the City, and made to the financial statement.
3. Bank Reconciliations: The City had not established controls to ensure that record balances were fully reconciled to the depository balances. The following errors were identified during the testing of the City's bank reconciliations:
 - a. Reconciling items were not being investigated and resolved timely. Reconciling items from 2012 and 2013 were still showing as outstanding items at December 31, 2015.
 - b. Three of the nineteen bank reconciliations contained unidentified cash variances resulting in net cash long of \$99,072.
 - c. The Payroll Account reconciliation contained unresolved differences between Indiana Public Retirement System and insurance payments and the actual activity posted to the financial records.

Cause

Management of the City did not establish a proper system of internal control, including segregations of duties, to 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.

Financial activity of the Wastewater Utility was not being reviewed for reasonableness and proper recording.

Reconciling items and unidentified cash variances on the monthly bank reconciliations were not being investigated and resolved timely.

Effect

The failure to establish internal controls enabled material misstatements or irregularities to remain undetected.

Criteria

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.

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CITY OF JEFFERSONVILLE
FEDERAL FINDINGS
(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)

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

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance guidelines Manual for Cities and Towns, Chapter 7)

812-285-6400

Jeffersonville City Hall
500 Quartermaster Court
Jeffersonville, Indiana 47130



CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person Responsible for Correction Action: Heather Metcalf
Contact Phone Number: 812-285-6492

Views of Responsible Official:

I concur with the finding

Description of Corrective Action Plan:

For the 2016 SEFA reporting, the City's Accountant will still enter the information in the Gateway system, then the Controller will verify entries before submitting the report through the Gateway system.

FINDING 2015-002

Contact Person Responsible for Correction Action: Heather Metcalf
Contact Phone Number: 812-285-6492

Views of Responsible Official:

1. I concur with the finding
2. I concur with the finding
3. I concur with the finding

Description of Corrective Action Plan:

#1 – The City has now changed policy to have the departments prepare the deposit slips to be turned in with the Report of Collections and the cash to the cash coordinator. The cash coordinator will collect and post the records and will review that the deposit slip, report, and cash all balance. The administrative assistant will take the deposits to bank and return the completed deposit slip to the cash coordinator to attach to the original receipt and all supporting documents. Estimated completion date for the finance department to train the other departments is by the end of 2016.

#2 – The errors in postings to the Gateway Annual Report were corrected by the Controller in August 2016. New procedures are now in place to calculate the liability adjustments from accrual to cash basis and to properly post to the Gateway system.

#3 –a. and c. The change in staff in 2013 made it possible to research and solve most of the existing 2012 and 2013 reconciling items. The accountant, controller, and assistant controller have spent countless hours in identifying why the discrepancies occurred. Controls are now in place for verification of reconciling items. Expected completion date to resolve discrepancies is

2016. Record balances are now fully reconciled to the depository balances within 30 days of the close of the month.

b. The unidentified cash variances were the following:

Bank 0 Civil City	(649.76)
Bank 20 City Court	200.00
Bank 11 Payroll	99,521.85

As of September 2016, all unidentified cash variances in Bank 0 have been resolved.

The issue in Bank 20 was the cash change amount. This amount was transferred to the general fund on 3/15/16.

The variances in the amount of \$107,216.57 in bank 11 were approved by the Common Council to be written off on March 7, 2016. As of October 20, 2016 we have identified the remaining variances and will resolve the variances by December 31, 2016.



Signature

Controller

Title

10-20-16

Date

CONTROLLER
CITY OF JEFFERSONVILLE
AUDIT RESULTS AND COMMENTS

ADVANCE PAYMENTS

Police pensioners, fire pensioners, and some City employees were paid on a semimonthly basis. These pensioners and employees were paid on the 10th of each month for the period of the 1st through the 15th and on the 25th of the month for the period of the 16th through the 31st. This payment method resulted in compensation being paid in advance for a portion of each pay period.

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OVERDRAWN CASH BALANCE

The cash balance of the East End Bridge Project fund was overdrawn in the amount of \$4,128 at December 31, 2015.

The cash 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)

CREDIT CARDS

City Ordinance 2013-OR-8 authorized the use of credit cards for certain City departments and established a credit card usage policy. The policy stated that all credit cards shall be kept under the care and control of the Controller. We noted instances in which credit cards were being maintained by some of the departments and not kept under the care and control of the Controller.

In testing payments of credit card purchases for compliance with the City's credit card use policy, we noted 10 purchases totaling \$1,707 charged by various City departments for meals and snacks within the city limits. Documentation establishing the business nature of the meals and snacks were not provided or attached to the claims to determine if the meal and snacks were for the benefit of a person visiting the City for official city business.

The City's credit card policy states in part 4: "That all credit cards shall not be used for any meals within fifty (50) miles of the City of Jeffersonville, unless the meal is for the benefit of a person visiting the City for official city business. . . ."

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)

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

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

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

(1) there is a fully itemized invoice or bill for the claim; . . ."

CONTROLLER
CITY OF JEFFERSONVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for which amounts are claimed, including the nature, name, and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim, may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

USE OF TAX INCREMENT FINANCING (TIF) FUNDS

The City used TIF funds for ongoing maintenance of properties that have already been redeveloped. These include Big 4 Station maintenance in the amount of \$74,517, Big 4 Station security in the amount of \$66,434, Allison Brook Park security in the amount of \$9,380, Big 4 Station utilities in the amount of \$32,574, and Allison Brook Park utilities in the amount of \$511.

In addition to the above disbursements from the TIF allocation funds, the City provided financial assistance to one business for redevelopment purposes in the amount of \$2,891. The City also used TIF funds for sponsorship and advertisement of the City of Jeffersonville Steamboat Days in the amount of \$25,740 and sponsorship of the City of Jeffersonville ice skating rink in the amount of \$50,000.

Similar comments have appeared in prior reports.

Indiana Code 36-7-14-39(b)(3) states in part:

". . . property tax proceeds . . . shall be allocated to the redevelopment district and when collected, paid into an allocation fund area that may be used by the redevelopment district only to do one (1) or more of the following:

(A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds which are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.

(B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area.

(C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under section 27 of this chapter.

(D) Pay the principal of and interest on bonds issued by the unit to pay for local public improvements that are physically located in or physically connected to that allocation area.

(E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.

(F) Make payments on leases payable from allocated tax proceeds in that allocation area under section 25.2 of this chapter.

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CITY OF JEFFERSONVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

(G) Reimburse the unit for expenditures made by it for local public improvements (which include buildings, parking facilities, and other items described in section 25.1(a) of this chapter) that are physically located in or physically connected to that allocation area.

(H) Reimburse the unit for rentals paid by it for a building or parking facility that is physically located in or physically connected to that allocation area under any lease entered into under IC 36-1-10.

(I) For property taxes first due and payable before January 1, 2009, . . .

(J) Pay expenses incurred by the redevelopment commission for local public improvements that are in the allocation area or serving the allocation area. Public improvements include buildings, parking facilities, and other items described in section 25.1(a) of this chapter.

(K) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located: (i) in the allocation area; and (ii) on a parcel of real property that has been classified as industrial property under the rules of the department of local government finance. . . .

(L) Pay the costs of carrying out an eligible efficiency project (as defined in IC 36-9-41-1.5) within the unit that established the redevelopment commission. However, property tax proceeds may be used under this clause to pay the costs of carrying out an eligible efficiency project only if those property tax proceeds exceed the amount necessary to do the following:
. . .

The allocation fund may not be used for operating expenses of the commission."

Payments or transfers which are not authorized by statute, ordinance, resolution, or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

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

The uses of TIF funds are restricted to those set forth in the Indiana Code. The power of a redevelopment commission to expend such funds is limited to the express statutory powers as set forth in Indiana Code 36-7-14. The use of TIF funds for ongoing maintenance of redeveloped property is not an expressly or impliedly permitted use, except as provided in Indiana Code 36-7-1-18(7) for repairing and maintaining buildings acquired before redevelopment is complete. (Redevelopment Commission of the Town of Munster, Indiana, v. Indiana State Board of Accounts and Paul D. Joyce, State Examiner of State Board of Accounts, 28 N.E.3d 272 (Ind. App., 2015) trans. denied, 34 N.E.3d 251)

FUND SOURCES AND USES

The City transferred \$1,500,000 from the General Fund to the Woehrle Const/Expan and Parks Projects fund, a park and recreation non-reverting capital project fund.

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

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CITY OF JEFFERSONVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 36-1-8-4(a) states:

"The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a depleted fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the depleted fund that is in need of money for cash flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.
- (3) 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.
- (5) Only revenues derived from the levying and collection of property taxes or special taxes or from operation of the political subdivision may be included in the amount transferred."

DEPARTMENT OF LAW

Les Merkley, Corporation Counsel/Director of Legal Affairs

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State Board of Accounts
302 West Washington St., Room E 418
Indianapolis, IN 46204-2765

RE: City of Jeffersonville (Controller)
2015 Audit Results
OFFICIAL RESPONSE

To Whom It May Concern:

The City of Jeffersonville would like to respond to the comments contained in the 2015 audit, pertaining to the Controller.

Advance Payments

The City of Jeffersonville takes exception to the findings as to advance payments. In support of said exception, the City of Jeffersonville is authorized to pay police and fire employees/pensioners on a semi-monthly per the Collective Bargaining Agreement. Additionally, I.C. 36-4-8-9 (b) clearly authorizes such advanced payment to employees in that it states the following:

Compensation for services paid to a salaried city officer or employee pursuant to a fixed schedule set forth in a written contract or salary ordinance shall not be construed as having been paid in advance. Under such an arrangement, the city shall maintain records to verify that actual work is performed for all salary paid.

Use of Tax Increment Financing (TIF) Funds

The City of Jeffersonville takes exception to the findings as to the use of TIF funds. In support of said exception, the City of Jeffersonville may expend TIF funds for maintenance since redevelopment statutes do not explicitly prohibit the use of tax increment to pay maintenance expenses of local improvements in a redevelopment area. Rather, the statutes only prohibit the use of tax increment for "operating expenses" and not for maintenance. It is again the City's position that maintaining a redevelopment asset is not an operating expense and therefore, not prohibited under the statute.

Additionally, the statute as whole clearly permits a redevelopment commission to exercise its power to fund maintenance of parks and green space that is a local improvement in a redevelopment area. The redevelopment commission is statutorily empowered and directed to foster redevelopment (I.C. 36-7-14-2(b) and I.C. 36-7-14-11). The definition of "Redevelopment" includes the following activities:

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- (1) Acquiring real property in areas needing redevelopment.
- (2) Replatting and determining the proper use of real property acquired.
- (3) Opening, closing, relocating, widening, and improving public ways.
- (4) Relocating, constructing, and improving sewers, utility services, offstreet parking facilities, and levees.
- (5) Laying out and constructing necessary public improvements, including parks, playgrounds, and other recreational facilities.
- (6) Restricting the use of real property acquired according to law.
- (7) Repairing and maintaining buildings acquired, if demolition of those buildings is not considered necessary to carry out the redevelopment plan.
- (8) Rehabilitating real or personal property to carry out the redevelopment or urban renewal plan, regardless of whether the real or personal property is acquired by the unit.
- (9) Investigating and remediating environmental contamination on real property to carry out the redevelopment or urban renewal plan, regardless of whether the real property is acquired by the unit.
- (10) Disposing of property acquired on the terms and conditions and for the uses and purposes that best serve the interests of the units served by the redevelopment commission.
- (11) Making payments required or authorized by IC 8-23-17.
- (12) Performing all acts incident to the statutory powers and duties of a redevelopment commission.

It is clear from this definition that "redevelopment" includes the items listed, but the list is not exclusive. Specifically, subsection 12 states that the commission has broad discretion to make determinations under the Statute as to what constitutes redevelopment as long as that determination involves its powers and fulfilling its duties.

Meanwhile, "local improvement" is defined as any of the following: (1) a redevelopment project. (2) a purpose of a commission under I.C. 36-7-14 or I.C. 36-7-30. (3) a purpose of an authority under I.C. 36-7-14.5. As a result of this definition, "local improvement" means accomplishing the purposes of redevelopment. A simple reading of the powers of the redevelopment commission (I.C. 36-7-14-12.2) demonstrates that the Indiana General Assembly intended for the redevelopment commission to have the authority to accomplish not specific projects, but purposes.

The General Assembly has given the redevelopment commission broad authority to expend funds to accomplish redevelopment so long as the use is not specifically prohibited as it is in the case of certain operating expenses. The City's disbursements from TIF funds for "redevelopment purposes" to foster development and new businesses located within the redevelopment area is permissible under the redevelopment statutes.

Finally, it is erroneous to believe that redevelopment of the 10th Street medians and the Big Four Station was completed when the improvements were completed. The statutory language confirms, that

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redevelopment does not end when the work is completed. Frankly, the comment counters the ultimate objective of redevelopment. If redevelopment property is not maintained it will predictably fall into disrepair and defeat the purpose of redevelopment – a result the Indiana General Assembly did not intend.

Upon reviewing the relevant law at the time of the redevelopment commission approved the use of tax increment financing funds for maintaining of properties, it was, and still is, my opinion that the term "maintenance" is not specifically prohibited under the Statute. I believe that if the legislature intended to prohibit the use of tax increment funds for maintenance it would have stated so in the statutory framework, and more importantly, I believe such prohibition is counter-productive to the objective of redevelopment.

Thank you for this opportunity to respond to your annual audit of Jeffersonville's financial activities. Mayor Moore and the other officials and employees of his administration appreciate the professional manner in which you and your staff have conducted our annual audits throughout his first term. We also appreciate your help and suggestions for improving our procedures. Please do not hesitate to contact me with any questions or comments regarding this response or any other aspect of the City's financial activities.

Yours truly,



Les D. Merkley
Corporation Counsel/Director of Legal Affairs
Direct: (812) 285-6423
lmerkley@cityofjeff.net

CC: M. Moore
M. Owen
H. Metcalf

CONTROLLER
CITY OF JEFFERSONVILLE
EXIT CONFERENCE

The contents of this report were discussed on December 13, 2016, with Mike Moore, Mayor, and Leslie D. Merkley, Corporate Council.

The contents of this report were discussed on December 15, 2016, with Heather Metcalf, Controller; Matt Owen, President of the Common Council; Lisa Gill, Council member; and R. Scott Lewis, Council Attorney.

REDEVELOPMENT COMMISSION
CITY OF JEFFERSONVILLE

REDEVELOPMENT COMMISSION
CITY OF JEFFERSONVILLE
AUDIT RESULT AND COMMENT

USE OF TAX INCREMENT FINANCING (TIF) FUNDS

The City used TIF funds for ongoing maintenance of properties that have already been redeveloped. These include Big 4 Station maintenance in the amount of \$74,517, Big 4 Station security in the amount of \$66,434, Allison Brook Park security in the amount of \$9,380, Big 4 Station utilities in the amount of \$32,574, and Allison Brook Park utilities in the amount of \$511.

In addition to the above disbursements from the TIF allocation funds, the City provided financial assistance to one business for redevelopment purposes in the amount of \$2,891. The City also used TIF funds for sponsorship and advertisement of the City of Jeffersonville Steamboat Days in the amount of \$25,740 and sponsorship of the City of Jeffersonville Ice skating rink in the amount of \$50,000.

Similar comments have appeared in prior reports.

Indiana Code 36-7-14-39(b)(3) states in part:

". . . property tax proceeds . . . shall be allocated to the redevelopment district and when collected, paid into an allocation fund area that may be used by the redevelopment district only to do one (1) or more of the following:

(A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds which are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.

(B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area.

(C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under section 27 of this chapter.

(D) Pay the principal of and interest on bonds issued by the unit to pay for local public improvements that are physically located in or physically connected to that allocation area.

(E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.

(F) Make payments on leases payable from allocated tax proceeds in that allocation area under section 25.2 of this chapter.

(G) Reimburse the unit for expenditures made by it for local public improvements (which include buildings, parking facilities, and other items described in section 25.1(a) of this chapter) that are physically located in or physically connected to that allocation area.

(H) Reimburse the unit for rentals paid by it for a building or parking facility that is physically located in or physically connected to that allocation area under any lease entered into under IC 36-1-10.

(I) For property taxes first due and payable before January 1, 2009, . . .

REDEVELOPMENT COMMISSION
CITY OF JEFFERSONVILLE
AUDIT RESULT AND COMMENT
(Continued)

(J) Pay expenses incurred by the redevelopment commission for local public improvements that are in the allocation area or serving the allocation area. Public improvements include buildings, parking facilities, and other items described in section 25.1(a) of this chapter.

(K) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located: (i) in the allocation area; and (ii) on a parcel of real property that has been classified as industrial property under the rules of the department of local government finance. . . .

(L) Pay the costs of carrying out an eligible efficiency project (as defined in IC 36-9-41-1.5) within the unit that established the redevelopment commission. However, property tax proceeds may be used under this clause to pay the costs of carrying out an eligible efficiency project only if those property tax proceeds exceed the amount necessary to do the following:
. . .

The allocation fund may not be used for operating expenses of the commission."

Payments or transfers which are not authorized by statute, ordinance, resolution, or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

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

The uses of TIF funds are restricted to those set forth in the Indiana Code. The power of a redevelopment commission to expend such funds is limited to the express statutory powers as set forth in Indiana Code 36-7-14. The use of TIF funds for ongoing maintenance of redeveloped property is not an expressly or impliedly permitted use, except as provided in Indiana Code 36-7-1-18(7) for repairing and maintaining buildings acquired before redevelopment is complete. (Redevelopment Commission of the Town of Munster, Indiana, v. Indiana State Board of Accounts and Paul D. Joyce, State Examiner of State Board of Accounts, 28 N.E.3d 272 (Ind. App., 2015) trans. denied, 34 N.E.3d 251)

Office Of The Mayor

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www.cityofjeff.net

Jeffersonville City Hall
500 Quartermaster Court
Jeffersonville, Indiana 47130



VIA E-MAIL: ldavid@sboa.in.gov (Hard Copy to follow via U.S. Mail)

State Board of Accounts
302 West Washington St., Room E 418
Indianapolis, IN 46204-2765

RE: City of Jeffersonville (Redevelopment Commission)
2015 Audit Results
OFFICIAL RESPONSE

To Whom It May Concern:

The City of Jeffersonville would like to respond to the comments contained in the 2015 audit, pertaining to the Redevelopment Commission.

Use of Tax Increment Financing (TIF) Funds

The City of Jeffersonville takes exception to the findings as to the use of TIF funds. In support of said exception, the City of Jeffersonville may expend TIF funds for maintenance since redevelopment statutes do not explicitly prohibit the use of tax increment to pay maintenance expenses of local improvements in a redevelopment area. Rather, the statutes only prohibit the use of tax increment for "operating expenses" and not for maintenance. It is again the City's position that maintaining a redevelopment asset is not an operating expense and therefore, not prohibited under the statute.

Additionally, the statute as whole clearly permits a redevelopment commission to exercise its power to fund maintenance of parks and green space that is a local improvement in a redevelopment area. The redevelopment commission is statutorily empowered and directed to foster redevelopment (I.C. 36-7-14-2(b) and I.C. 36-7-14-11). The definition of "Redevelopment" includes the following activities:

- (1) Acquiring real property in areas needing redevelopment.
- (2) Replatting and determining the proper use of real property acquired.
- (3) Opening, closing, relocating, widening, and improving public ways.
- (4) Relocating, constructing, and improving sewers, utility services, offstreet parking facilities, and levees.
- (5) Laying out and constructing necessary public improvements, including parks, playgrounds, and other recreational facilities.
- (6) Restricting the use of real property acquired according to law.
- (7) Repairing and maintaining buildings acquired, if demolition of those buildings is not considered necessary to carry out the redevelopment plan.

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(8) Rehabilitating real or personal property to carry out the redevelopment or urban renewal plan, regardless of whether the real or personal property is acquired by the unit.

(9) Investigating and remediating environmental contamination on real property to carry out the redevelopment or urban renewal plan, regardless of whether the real property is acquired by the unit.

(10) Disposing of property acquired on the terms and conditions and for the uses and purposes that best serve the interests of the units served by the redevelopment commission.

(11) Making payments required or authorized by IC 8-23-17.

(12) Performing all acts incident to the statutory powers and duties of a redevelopment commission.

It is clear from this definition that "redevelopment" includes the items listed, but the list is not exclusive. Specifically, subsection 12 states that the commission has broad discretion to make determinations under the Statute as to what constitutes redevelopment as long as that determination involves its powers and fulfilling its duties.

Meanwhile, "local improvement" is defined as any of the following: (1) a redevelopment project. (2) a purpose of a commission under I.C. 36-7-14 or I.C. 36-7-30. (3) a purpose of an authority under I.C. 36-7-14.5. As a result of this definition, "local improvement" means accomplishing the purposes of redevelopment. A simple reading of the powers of the redevelopment commission (I.C. 36-7-14-12.2) demonstrates that the Indiana General Assembly intended for the redevelopment commission to have the authority to accomplish not specific projects, but purposes.

The General Assembly has given the redevelopment commission broad authority to expend funds to accomplish redevelopment so long as the use is not specifically prohibited as it is in the case of certain operating expenses. The City's disbursements from TIF funds for "redevelopment purposes" to foster development and new businesses located within the redevelopment area is permissible under the redevelopment statutes.

Finally, it is erroneous to believe that redevelopment of the 10th Street medians and the Big Four Station was completed when the improvements were completed. The statutory language confirms, that redevelopment does not end when the work is completed. Frankly, the comment counters the ultimate objective of redevelopment. If redevelopment property is not maintained it will predictably fall into disrepair and defeat the purpose of redevelopment – a result the Indiana General Assembly did not intend.

Upon reviewing the relevant law at the time of the redevelopment commission approved the use of tax increment financing funds for maintaining of properties, it was, and still is, my opinion that the term "maintenance" is not specifically prohibited under the Statute. I believe that if the legislature intended to prohibit the use of tax increment funds for maintenance it would have stated so in the statutory framework, and more importantly, I believe such prohibition is counter-productive to the objective of redevelopment.

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Thank you for this opportunity to respond to your annual audit of Jeffersonville's financial activities. Mayor Moore and the other officials and employees of his administration appreciate the professional manner in which you and your staff have conducted our annual audits throughout his first term. We also appreciate your help and suggestions for improving our procedures. Please do not hesitate to contact me with any questions or comments regarding this response or any other aspect of the City's financial activities.

Yours truly,



Les D. Merkley
Corporation Counsel/Director of Legal Affairs
Direct: (812) 285-6423
lmerkley@cityofjeff.net

CC: R. Waiz
M. Snelling
H. Metcalf

REDEVELOPMENT COMMISSION
CITY OF JEFFERSONVILLE
EXIT CONFERENCE

The contents of this report were discussed on December 13, 2016, with Mike Moore, Mayor, and Leslie D. Merkley, Corporate Counsel.

The contents of this report were discussed on December 15, 2016, with Rob Waiz, Redevelopment Director, and R. Monty Snelling, President of the Redevelopment Commission.

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COMMON COUNCIL
CITY OF JEFFERSONVILLE

COMMON COUNCIL
CITY OF JEFFERSONVILLE
AUDIT RESULTS AND COMMENTS

QUESTIONABLE EXPENDITURES

A review of credit card disbursements indicated the following items were paid in 2015 from various departments of the General Fund and from the Street Department Non-Reverting fund.

Month Purchased	Amount	Fund/Department	Description of Purchase	Account Posted To
December	\$ 25	General Fund-Police Department	Christmas decorations	Furniture & Fixtures
December	153	General Fund-Police Department	Christmas decorations	Furniture & Fixtures
December	152	General Fund-Police Department	Christmas decorations	Furniture & Fixtures
December	491	General Fund-Police Department	Christmas tree for the Police Station	Furniture & Fixtures
December	370	General Fund-Fire Department	Thanksgiving dinner	Other Supplies
December	120	General Fund-Fire Department	Thanksgiving dinner	Other Supplies
December	625	General Fund-Human Resources	\$25 gift cards for employee Christmas party	Other Supplies
December	375	General Fund-Human Resources	\$25 gift cards for employee Christmas party	Other Supplies
December	1,000	General Fund-Human Resources	Christmas lunch	Other Supplies
December	1,485	Street Depart Non-Reverting	Employee turkeys	Not applicable
Total	<u>\$ 4,796</u>			

The City had a promotional account in the General Fund department budget of the Mayor and Common Council. However, these expenses were not paid from either of these budgeted line items. Additionally, the Street Depart Non-Reverting fund does not have the authority to have a promotional account and as such, turkeys for employees were not considered authorized expenditures of this fund.

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

COMMON COUNCIL
CITY OF JEFFERSONVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

FUND SOURCES AND USES

The City transferred \$1,500,000 from the General Fund to the Woehrle Const/Expan and Parks Projects fund, a park and recreation non-reverting capital project fund.

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

Indiana Code 36-1-8-4(a) states:

"The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a depleted fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met:

- (1) It must be necessary to borrow money to enhance the depleted fund that is in need of money for cash flow purposes.
- (2) There must be sufficient money on deposit to the credit of the other fund that can be temporarily transferred.
- (3) 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.
- (5) Only revenues derived from the levying and collection of property taxes or special taxes or from operation of the political subdivision may be included in the amount transferred."

COMMON COUNCIL
CITY OF JEFFERSONVILLE
EXIT CONFERENCE

The contents of this report were discussed on December 13, 2016, with Mike Moore, Mayor, and Leslie D. Merkley, Corporate Counsel.

The contents of this report were discussed on December 15, 2016, with Matt Owen, President of the Common Council; Lisa Gill, Council member; Heather Metcalf, Controller; and R. Scott Lewis, Council Attorney.

SEWER BOARD
CITY OF JEFFERSONVILLE

SEWER BOARD
CITY OF JEFFERSONVILLE
AUDIT RESULTS AND COMMENTS

QUESTIONABLE EXPENDITURES

A review of credit card disbursements indicated the following items that were paid from the Sewage Operating and Maintenance fund and were unrelated to the functions and purposes of the wastewater utility.

<u>Month Purchased</u>	<u>Amount</u>	<u>Description of Purchase</u>
February	\$ 67	Soft drinks, napkins, plates
April	70	Flowers
July	62	Flowers
April	12	Birthday cake plates
August	45	Gatorade
December	64	Cups, bowls, candy, soft drinks
April	60	Get well balloons
April	4	Get well card
December	163	Gift Cards; food, drinks, plates
June	25	Gift card
November	325	Gift cards; 1 \$25 and 4 \$75
January	55	One funeral wind chime
February	72	One funeral wind chime
December	89	One funeral wind chime
December	95	One funeral wind chime
December	83	Two funeral wind chimes
February	67	Birthday cake
March	88	Birthday cake
December	70	Birthday cake
April	66	Birthday cake
May	66	Birthday cake
June	88	Birthday cake
June	66	Birthday cake
July	66	Birthday cake
August	59	Birthday cake
September	69	Birthday cake
September	61	Pizza for workers
September	32	Gatorade, gum, rice krispie treat, case of water
October	71	Birthday cake
November	70	Birthday cake
February	1,400	56 \$25 gift cards
February	306	Chicken, casseroles, slaw, rolls
December	163	Snacks, plates, serving utensils, bbq items
April	59	Memorial
December	70	Birthday cake
June	59	Funeral stepping stone
December	94	Funeral wind chime
Total	<u>\$ 4,381</u>	

SEWER BOARD
CITY OF JEFFERSONVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

Expenses paid from utility funds should be directly related to the operation of the municipally owned utility. Expenditures for city and town operating costs should not be paid from utility funds. Furthermore, utility funds should not be used to pay for personal items. The cost of shared employees and equipment between a city or town and its utilities or between utilities should be prorated in a rational manner. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Public funds may not be used to pay for personal items or for expenses which do not relate to the functions and purposes of the governmental unit. Any personal expenses paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

CREDIT CARDS

Ordinance 2013-OR-8 authorized the use of credit cards by certain City departments and established a credit card usage policy. The policy stated that all credit cards shall be kept under the care and control of the Controller. The ordinance does not list the Wastewater Utility Department as being authorized to use credit cards; however, we noted the Wastewater Utility used credit cards and these cards were not kept under the care and control of the Controller.

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)

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

1. The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
2. Issuance and use should be handled by an official or employee designated by the board.
3. The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
4. When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
5. The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
6. Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.

SEWER BOARD
CITY OF JEFFERSONVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

7. Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
8. If properly authorized, an annual fee may be paid.

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

SEWER BOARD
CITY OF JEFFERSONVILLE
EXIT CONFERENCE

The contents of this report were discussed on December 13, 2016, with Mike Moore, Mayor, and Leslie D. Merkley, Corporate Counsel.

The contents of this report were discussed on December 15, 2016, with Len Ashack, Director; William Saegesser, Board member; Dale Orem, Board member; Andy Crouch, Advisor to the Sewer Board; and R. Scott Lewis, Board Attorney.

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POLICE PENSION PLAN
CITY OF JEFFERSONVILLE

POLICE PENSION PLAN
CITY OF JEFFERSONVILLE
AUDIT RESULT AND COMMENT

COLLECTION OF AMOUNTS DUE - POLICE PENSIONERS

During the period January 2017 through June 2016, five pensioners of the 1925 Police Officers' Pension Plan who converted to the State of Indiana 1977 Police Officers' and Firefighters' Pension and Disability Fund received an amount that exceeded their cost of living adjustment (as determined by the state) effective July 1, 2014. The pensioners were overpaid a total of \$7,636.

During the period January 2014 through December 2015, the benefits of four deceased members (including one surviving spouse) of the 1925 Police Pension Plan were not correctly allocated based on the date of death. Members were overpaid a total of \$1,362.

Indiana Code 36-8-8-15 states in part:

"Each year the system board shall determine if there has been an increase or decrease in the consumer price index (United States city average) prepared by the United States Department of labor by comparing the arithmetic mean of the consumer price index for January, February, and March of that year with the arithmetic mean for the same three (3) months of the preceding year. If there has been an increase, or a decrease, it shall be stated as a percentage of the arithmetic mean for the preceding three (3) month period. The percentage shall be rounded to the nearest one-tenth of one percent (0.1%) and may not exceed three percent (3%). If there is a percentage increase of the arithmetic mean for the preceding three (3) month period, a fund member's or survivor's monthly benefit, beginning with the July payment, shall be increased by an amount equal to the June payment times the percentage increase . . ."

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

POLICE PENSION PLAN
CITY OF JEFFERSONVILLE
EXIT CONFERENCE

The contents of this report were discussed on December 13, 2016, with Mike Moore, Mayor, and Leslie D. Merkle, Corporate Counsel.

The contents of this report were discussed on December 15, 2016, with Todd Hollis, Police Pension Secretary; Scott McVoy, Assistant Chief of Police; Anne Langley, Administrative Assistant; Heather Metcalf, Controller; Lisa Gill, Council member; Matt Owen, President of the Common Council; and R. Scott Lewis, and Council Attorney.

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FIREFIGHTERS' PENSION PLAN
CITY OF JEFFERSONVILLE

FIREFIGHTERS' PENSION PLAN
CITY OF JEFFERSONVILLE
AUDIT RESULT AND COMMENT

COMPENSATION AND BENEFITS - FIREFIGHTERS' PENSIONERS

During the period January 2014 through June 2016, four pensioners and one surviving spouse of the 1937 Firefighters' Pension Plan who converted to the State of Indiana 1977 Police Officers' and Firefighters' Pension and Disability Fund incorrectly received a cost of living adjustment on January 1, 2014. One deceased pensioner and the surviving spouse's benefits were not correctly allocated based on the date of death. Members were overpaid a total of \$3,057.

During the period January 2014 through October 15, 2016, thirty pensioners (including surviving spouses) participating in the 1937 Firefighters' Pension Plan did not receive their cost of living adjustment (as determined by the City's contract) effective in January 2014 and January 2015. Five deceased members' benefit was not correctly allocated based on their date of death. Four members were overpaid a total of \$2,267 and 26 members were underpaid a total of \$9,726.

The six pensioners and one surviving spouse participating in the 1937 DROP Firefighters' Pension Plan did not receive their correct benefit. The members' over/underpayments were a result of incorrect calculations of pension benefits since their retirement date. Four pensioners and one surviving spouse were underpaid a total of \$40,365 and two pensioners were overpaid a total of \$2,170 through October 31, 2016.

Indiana Code 36-8-8-15 states in part:

"Each year the system board shall determine if there has been an increase or decrease in the consumer price index (United States city average) prepared by the United States Department of labor by comparing the arithmetic mean of the consumer price index for January, February, and March of that year with the arithmetic mean for the same three (3) months of the preceding year. If there has been an increase, or a decrease, it shall be stated as a percentage of the arithmetic mean for the preceding three (3) month period. The percentage shall be rounded to the nearest one-tenth of one percent (0.1%) and may not exceed three percent (3%). If there is a percentage increase of the arithmetic mean for the preceding three (3) month period, a fund member's or survivor's monthly benefit, beginning with the July payment, shall be increased by an amount equal to the June payment times the percentage increase . . . "

FIREFIGHTERS' PENSION PLAN
CITY OF JEFFERSONVILLE
AUDIT RESULT AND COMMENT
(Continued)

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

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 36-8-8.5-13(a) states in part:

"A cost of living adjustment to the monthly benefit of a member of the 1925 fund, 1937 fund, or 1953 fund is determined in STEP FOUR of the following formula:

STEP ONE: Calculate a percentage by dividing:

- (A) The amount of any increase in the salary of a first class officer or firefighter, whichever is applicable; by
- (B) The prior year's salary of a first class officer or firefighter, whichever is applicable.

STEP TWO: Add:

- (A) The member's DROP frozen benefit; and
- (B) The amount of any prior cost of living adjustments calculated under this section.

STEP THREE: Multiply the percentage determined under STEP ONE by the sum determined under STEP TWO.

STEP FOUR: Add the product determined under STEP THREE to the sum determined under STEP TWO. . . ."

FIREFIGHTERS' PENSION PLAN
CITY OF JEFFERSONVILLE
EXIT CONFERENCE

The contents of this report were discussed on December 13, 2016, with Mike Moore, Mayor, and Leslie D. Merkley, Corporate Counsel.

The contents of this report were discussed on December 15, 2016, with Eric Hedrick, Fire Chief; Marcus Renn, Firefighters' Pension Secretary; Heather Metcalf, Controller; Lisa Gill, Council member; Matthew Owen, President of the Common Council; R. Scott Lewis, Council Attorney; and Bruce DeArk, Deputy Fire Chief.