

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF MERRILLVILLE

LAKE COUNTY, INDIANA

January 1, 2018 to December 31, 2019



FILED
12/16/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Eugene Guernsey Kelly White Gibson	01-01-19 to 12-31-19 01-01-20 to 12-31-20
President of the Town Council	Richard Hardaway Rick Bella	01-01-19 to 12-31-19 01-01-20 to 12-31-20



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE TOWN OF MERRILLVILLE, LAKE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Merrillville (Town), for the period from January 1, 2018 to December 31, 2019. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statement Audit Report of the Town, which provides our opinions on the Town's financial statement. This report may be found at www.in.gov/sboa/.

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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

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

November 19, 2020

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CLERK-TREASURER
TOWN OF MERRILLVILLE

CLERK-TREASURER
TOWN OF MERRILLVILLE
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

This is a similar comment from the immediate prior Report B49987.

Condition and Context

There were deficiencies in the internal control system of the Town related to receipts and financial close and reporting.

The Town did not have effective internal controls in place to ensure that collections were properly receipted into the correct fund. Up to five different employees share the same cash drawer and initial each receipt when written. One person each day balances the drawer and creates the deposit slip. Another person will take the deposit to the bank, and both will initial the daily receipt transaction listing. There is no review or oversight once the deposit has been taken to the bank to ensure that the daily transaction listing agrees to the deposit.

The Town did not have effective internal controls in place over financial close and reporting. The Town entered and submitted the financial information into the Indiana Gateway for Government Units financial reporting system, which was the source of the Annual Financial Report and financial statement. The Town Court is a component of the Town and was not reported properly. The Town Court overstated its receipts by \$1,382,380 on December 31, 2019, and overstated its disbursements by \$980,374 and \$353,313 on December 31, 2018 and 2019, respectively.

Adjust adjustments were proposed, accepted by the Town, and made to the financial statement.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

CLERK-TREASURER
TOWN OF MERRILLVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

All documents and entries to records must be made 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. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

MOTOR VEHICLE HIGHWAY - RESTRICTED FUND

Condition and Context

The Motor Vehicle Highway Restricted fund reported expenditures that were for payroll. The Town had no documentation that determined if the amount expended was directly associated with either the construction, reconstruction, or the preservation of the Town's highways.

Criteria

Indiana Code 8-14-1-5(c) states: "For funds distributed to a city or town from the motor vehicle highway account, the city or town shall use at least fifty percent (50%) of the money for the construction, reconstruction, and preservation of the city's or town's highways."

CLERK-TREASURER
TOWN OF MERRILLVILLE
EXIT CONFERENCE

The contents of this report were discussed on November 19, 2020, with Kelly White Gibson, Clerk-Treasurer; Angie Chilcott, Bookkeeper; Patrick Reardon, Town Manager; Richard Hardaway, Town Council member; and Rick Bella, President of the Town Council.

TOWN COURT
TOWN OF MERRILLVILLE

TOWN COURT
TOWN OF MERRILLVILLE
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

This is a similar comment from the immediate prior Report B49987.

Condition and Context

There were deficiencies in the internal control system of the Town Court related to cash and investment, receipts, disbursements, and financial close and reporting.

There are no demonstrable internal controls over the Town Court. The Court Administrator collected the cash, created and recorded all of the receipts and disbursements, and reconciled the depository account. The Court Administrator sent a monthly spreadsheet to the Clerk-Treasurer for inclusion in the financial statement without a system of oversight or review. The Town Court overstated the receipts by \$1,382,380 for December 31, 2019, and overstated the disbursements by \$980,734 and \$353,313 at December 31, 2018 and 2019, respectively.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

TOWN COURT
TOWN OF MERRILLVILLE
AUDIT RESULTS AND COMMENTS
(Continued)

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

BANK ACCOUNT RECONCILIATIONS

This is a similar comment from the immediate prior Report B49987.

Condition and Context

The Town Court did not perform accurate monthly reconcilments of the ledger balance to the depository balance. The Town Court depository balance exceeded the ledger balance by \$25,542 and \$44,297 at December 31, 2018 and 2019, respectively.

Criteria

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."

TOWN OF MERRILLVILLE COURT
7820 BROADWAY
MERRILLVILLE, INDIANA 46410
(219) 765-6185 * FAX (219)756-1775

December 15, 2020

State Examiner
State Board of Accounts
302 West Washington Street, Rm. E418
Indianapolis, IN 46204-2765

Ref: 2019 Audit – Official Response

As the Judge of the Merrillville Town Court, this letter shall serve as my Official response to the audit results and comments discussed on November 19, 2020.

TOWN COURT INTERNAL CONTROLS

There are no demonstrable controls over the Town Court. The Court Administrator collects the cash, creates and records all of the receipts and disbursements, and reconciles the depository account. The Court Administrator sends a monthly spreadsheet to the Clerk Treasurer for inclusion in the financial statement without a system of oversight or review. The Town Court overstated the receipts for \$1,382,380 for December 31, 2019 and overstated the disbursements by \$980,734 and \$353,313 at December 31, 2018 and 2019, respectively.

The Court does not agree with the findings as it pertains to the Court Administrators' role in the processing of payments (ie cash or credit card) and deposits. The Court Administrator does not receive any payments from Defendants especially cash. All payments are collected by all bonded clerk employees. The normal process is as follows: Employee A takes a payment from a Defendant, enters it into the Court management system (formally courtview currently Odyssey) which creates a receipt. A copy of the receipt is given to the Payor and the cash is stored in Employee A's locked til drawer. Employee B will retrieve Bond payments received by the Police Department. In the presence of the Police Department employee, all cash is counted by both, and then recorded and initialed by both on the envelope containing the cash. The envelope and cash is recounted in the presence of the Court administrator who proceeds to enter the information into the Court management system. At the end of the day, all bonded clerks bring their locked tils and receipts to be counted in the presence of the Court Administrator, which is simultaneously checked against the Court management system daily balance. Once all funds have been reconciled, Employee C proceeds to the Bank to complete the deposit. Upon return, the deposit receipt amount is verified by the Court Administrator and the receipt is attached to the end of day receipts.

The Court acknowledges that there was no system created by the Court nor Clerk-Treasurer to verify the end of the month amounts submitted by the Court against the amount received by the Clerk-Treasurer. The Court Administrator has developed new processes with the Clerk-Treasurer to modify the gap in

understanding. Both parties shall initial and confirm both amounts are correct and verified in the Court management system as well as what is recorded by the Clerk-Treasurer.

BANK ACCOUNT RECONCILIATIONS

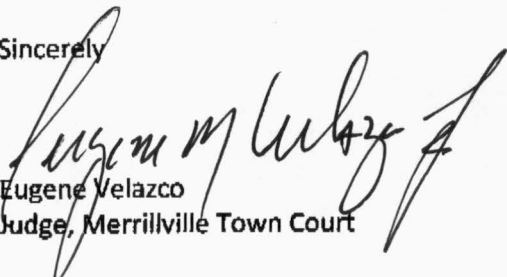
The Town Court did not perform accurate monthly reconcilements of the ledger balances to the depository balance. The Town Court depository balance exceeded the ledger balance by \$25,542 and \$44,297 at December 31, 2018 and 2019, respectively.

The administration prior to 2011 maintained records in a handwritten ledger book and did not utilize the financial portion of the Court management system (Courtview). The ledger pages were supposed to contain the name of the defendant, case number and the amount of criminal bond posted. The ledger was to duplicate the same case documented in Courtview. Once the defendant's case is disposed, the Court was supposed to remove the bond out of the Court View System by either releasing the bond to an Attorney, Defendant or for fines and costs and track the same action in the handwritten ledger. Unfortunately, this did not occur and instead they manually wrote checks instead of allowing the Court View system to print and keep record of the bonds that were being released. The ledger never matched the computerized system. The failure to maintain accurate records allowed for over 6 years of theft of funds by an employee as well as prohibited any ability to reconcile the ledger and courtview balances. Although the Court consistently passed all Audits during the six years that the theft was ongoing, the result has prohibited the bank balance from reconciling with the balance of funds in Court View. In April 2011, this court began utilizing the financial portion of the Courtview system and subsequently, Odyssey. To date, the Court still has cases that upon completion for disposal, that there is no cash bond recorded or the cash bond was previously disbursed manually to another/incorrect individual. The Court Administrator has and continues to use that same spreadsheet to remove bonds out of the Court View System and attached the legitimate bonds to the cases that was transferred over to Odyssey. The movement of the digital footprint of bonds has created the perceived inaccuracies that currently exists. In the interest of transparency, the Court Administrator has consistently provided any auditor a record of all bonds and corresponding cases that have been transferred from one system to the other. The tracking of actual funds vs funds that were stolen is an ongoing process.

Unlike Court View, Odyssey gives a more accurate account of bonds, fines and costs that exist as a case, and that are paid. All checks, receipts, and cash are recorded through the Odyssey court management system which will allow the Court to reconcile the ledger and bank deposit accurately.

We appreciate the time and effort by your staff during the Audit.

Sincerely


Eugene Velazco
Judge, Merrillville Town Court

TOWN COURT
TOWN OF MERRILLVILLE
EXIT CONFERENCE

The contents of this report were discussed on November 19, 2020, with The Honorable Eugene Velazco, Town Judge; The Honorable Gina Jones, prior Town Judge; Mattie Collins, Court Administrator; Richard Hardaway, Town Council member; and Rick Bella, President of the Town Council.

TOWN COUNCIL
TOWN OF MERRILLVILLE

TOWN COUNCIL
TOWN OF MERRILLVILLE
AUDIT RESULT AND COMMENT

CAPITAL ASSETS

Condition and Context

The Town did not have a capital assets policy that detailed the threshold at which an item is considered a capital asset.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TOWN COUNCIL
TOWN OF MERRILLVILLE
EXIT CONFERENCE

The contents of this report were discussed on November 19, 2020, with Richard Hardaway, Town Council member, and Rick Bella, President of the Town Council.