

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF NORTH VERNON

JENNINGS COUNTY, INDIANA

January 1, 2018 to December 31, 2019



FILED
01/26/2021

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	R. Shawn Gerkin	01-01-18 to 12-31-21
Mayor	Michael Ochs	01-01-18 to 12-31-21
President of the Board of Public Works and Safety	Michael Ochs	01-01-18 to 12-31-21
President Pro Tempore of the Common Council	Brian Hatfield	01-01-18 to 12-31-21
Utility Office Manager	Cara Byerley	01-01-18 to 12-31-21



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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TO: THE OFFICIALS OF THE CITY OF NORTH VERNON, JENNINGS COUNTY, INDIANA

This report is supplemental to our audit report of the City of North Vernon (City), 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 City. It should be read in conjunction with our Financial Statement Audit Report of the City, which provides our opinions on the City'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

January 21, 2021

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CLERK-TREASURER
CITY OF NORTH VERNON

CLERK-TREASURER
CITY OF NORTH VERNON
AUDIT RESULT AND COMMENT

MVH RESTRICTED FUND

Condition and Context

The City created an MVH Allocated Fund as Fund 200; however, the State Examiner Directive 2018-2 required the MVH Restricted Fund be Fund 203.

The City posted 50 percent of its distributions to the MVH Allocated Fund as required; however, they subsequently transferred \$85,000 out of the fund. The funds transferred were used to pay for highway construction, but the construction expenditures should have been paid directly from the MVH Allocated Fund. Additionally, the transfer of funds from the MVH Allocated Fund was not approved by the Common Council.

Criteria

The purpose of this Directive is to authorize and require . . . cities . . . that receive distributions from the State Motor Vehicle Highway Account to **create a new sub-fund within the MVH Fund** to properly manage and account for the usage restrictions that were included in House Enrolled Act 1002-2017 and House Enrolled Act 1290-2018. . . .

On the chart of accounts, the MVH Fund and MVH Restricted sub-fund shall be shown as follows:

. . .

Cities and Towns

Fund 201	MVH
Fund 203	MVH Restricted

Together, MVH and MVH Restricted shall constitute the total MVH Fund. MVH and MVH Restricted will be shown separately on the Annual Financial Report and Annual Operational Report.

Starting on January 1, 2019, the political subdivision must post at the time of receipt of the distribution from the State Motor Vehicle Highway Account fifty percent (50%) of the distribution to MVH Restricted. (State Examiner Directive 2018-2)

CLERK-TREASURER
CITY OF NORTH VERNON
EXIT CONFERENCE

The contents of this report were discussed on January 21, 2021, with R. Shawn Gerkin, Clerk-Treasurer; Michael Ochs, Mayor; Brian Hatfield, President Pro Tempore of the Common Council; and Rita Elmore, Deputy Clerk-Treasurer.

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COMMON COUNCIL
CITY OF NORTH VERNON

COMMON COUNCIL
CITY OF NORTH VERNON
AUDIT RESULTS AND COMMENTS

MVH RESTRICTED FUND

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TRAINING ON INTERNAL CONTROL STANDARDS

A similar comment also appeared in prior Reports B51708 and B51782.

Condition and Context

Not all required City personnel had received training on internal control standards and procedures. Only training certifications for the Clerk-Treasurer and Deputy Clerk-Treasurer were presented for audit.

Criteria

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

COMMON COUNCIL
CITY OF NORTH VERNON
EXIT CONFERENCE

The contents of this report were discussed on January 21, 2021, with R. Shawn Gerkin, Clerk-Treasurer; Michael Ochs, Mayor; Brian Hatfield, President Pro Tempore of the Common Council; and Rita Elmore, Deputy Clerk-Treasurer.

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REDEVELOPMENT COMMISSION
CITY OF NORTH VERNON

REDEVELOPMENT COMMISSION
CITY OF NORTH VERNON
AUDIT RESULT AND COMMENT

USE OF TAX INCREMENT FINANCING (TIF) FUNDS

Condition and Context

The City used tax increment financing (TIF) funds in the amount of \$146,144 to purchase a plow truck with snow removal equipment, and \$634 to purchase catering for a Redevelopment Commission meeting, which were not purposes for which TIF money may be used per Indiana Code 36-7-14-39(b)(3).

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 for that allocation 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](#).

REDEVELOPMENT COMMISSION
CITY OF NORTH VERNON
AUDIT RESULT AND COMMENT
(Continued)

- (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: . . .
- (M) Expend money and provide financial assistance as authorized in section 12.2(a)(27) of this chapter.

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

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).

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 1)



**CITY OF NORTH VERNON
CARNEGIE GOVERNMENT CENTER
143 EAST WALNUT STREET
NORTH VERNON, IN 47265**



OFFICIAL RESPONSE

Date: January 25, 2021

Indiana State Board of Accounts
302 West Washington St. Room E418
Indianapolis, IN 46204-2765

Re: AUDIT RESULT AND COMMENT

The proposed Audit Result and Comment states "The City used TIF funds in the amount of \$146,144 to purchase a plow truck with snow removal equipment and \$634 to purchase catering for a Redevelopment Commission meeting, which are not purposes for which TIF money may be used per Indiana Code 36-7-14-39(b)(3)."

The Commission understands the limits on how tax increment funds may be used. However, within the fund where tax increment is deposited, other revenues, primarily interest income, is also on hand. Due to the amount of interest income earned by the Commission, it was assumed that the interest income, which we do not believe has the same spending restrictions were used for the catering for the meeting. The catering not only provides lunch for Commission members that attend the 12:00 noon Commission Meetings, but for all attendees including various City Employees, Council Members, outside professionals and the local press.

The Commission understands a more detailed accounting of funds should be done and will strive to correct that moving forward.

The Board comments that the use of tax increment to purchase a plow truck with snow removal equipment is contrary to the statutory purpose for which tax increment may be used and cites Redevelopment Commission of Town of Munster v. Indiana State Board of Accounts (the "Munster Case") as dispositive of the issue. In the Munster Case, the Board suggest that "ongoing maintenance" of redeveloped property" is contrary to the permitted use of tax increment. The Commission in this case is not paying for ongoing maintenance of property, but has made a capital expenditure to purchase equipment which is an allowable Commission expenditure provided by IC 36-7-14-12.2. The intent of purchasing the equipment is to assure that streets and roadways within the Industrial Park Economic Development Area (the "Area") are clear and passable providing a direct benefit to the Area.

In this instance, the Commission believes that the expenditure for the plow truck with snow removal was an allowable use of tax increment.

Greg Hicks, President, North Vernon Redevelopment Commission



Carnegie Government Center

REDEVELOPMENT COMMISSION
CITY OF NORTH VERNON
EXIT CONFERENCE

The contents of this report were discussed January 21, 2021, with R. Shawn Gerkin, Clerk-Treasurer; Michael Ochs, Mayor; Greg Hicks, President of the Redevelopment Commission; Brian Hatfield, President Pro Tempore of the Common Council; and Rita Elmore, Deputy Clerk-Treasurer.