

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

FEDERAL COMPLIANCE AUDIT REPORT

OF

TOWN OF MERRILLVILLE

LAKE COUNTY, INDIANA

January 1, 2020 to December 31, 2020



FILED

12/29/2021

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	3-4
Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	5-7
Schedule of Expenditures of Federal Awards and Accompanying Notes:	
Schedule of Expenditures of Federal Awards	10
Notes to Schedule of Expenditures of Federal Awards.....	11
Schedule of Findings and Questioned Costs.....	12-14
Auditee-Prepared Document:	
Corrective Action Plan	16
Other Reports.....	17

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Kelly White Gibson	01-01-20 to 12-31-21
President of the Town Council	Rick Bella	01-01-20 to 12-31-21



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, 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, the financial statement of the Town of Merrillville (Town), for the year ended December 31, 2020, and the related notes to the financial statement, which collectively comprise the Town's financial statement and have issued our report thereon dated December 16, 2021, wherein we noted the Town followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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 Town's financial statement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2020-001, that we consider to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT 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 item 2020-001.

Town of Merrillville's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statement, and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

December 16, 2021



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for the Major Federal Program

We have audited the Town of Merrillville's (Town) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2020. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Town's major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Town's compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Opinion on the Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Report on Internal Control over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance 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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.


Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
(Continued)

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statement of the Town, as of and for the year ended December 31, 2020, and the related notes to the financial statement. We issued our report thereon dated December 16, 2021, which contained a dual opinion on the financial statement. An adverse opinion was issued regarding the presentation in accordance with U.S. Generally Accepted Accounting Principles, and an unmodified opinion was issued regarding the presentation in accordance with the Regulatory Basis of Accounting. Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.


Paul D. Joyce, CPA
State Examiner

December 16, 2021

(This page intentionally left blank.)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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, 2020

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Assistance Listing Number	Pass-Through Entity (or Other) Identifying Number	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Justice</u>					
Bulletproof Vest Partnership Program BULLET PROOF VEST	Direct grant	16.607	ID351288379150400	\$ -	\$ 3,486
Equitable Sharing Program EQUITABLE SHARING AGREEMENT CERTIFICATION	Direct grant	16.922	IN0451400	-	120
Total - Department of Justice				-	3,606
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster Highway Planning and Construction HIGHWAY PLANNING AND CONSTRUCTION	Indiana Department of Transportation	20.205	DES#1592420	-	142,561
Total - Highway Planning and Construction Cluster				-	142,561
Highway Safety Cluster State and Community Highway Safety IN CRIM JUSTICE OPO/DUI	Indiana Criminal Justice Institute	20.600	PT11040426	-	27,958
Total - Highway Safety Cluster				-	27,958
Total - Department of Transportation				-	170,519
<u>Department of the Treasury</u>					
COVID-19 - Coronavirus Relief Fund CARES Grant Fund	Indiana Finance Authority	21.019	CY2020	-	1,127,420
Total - Department of the Treasury				-	1,127,420
Total federal awards expended				\$ -	\$ 1,301,545

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

TOWN OF MERRILLVILLE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the Town under programs of the federal government for the year ended December 31, 2020. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the Town, it is not intended to and does not present the financial position of the Town.

B. Other Significant Accounting Policies

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received.

Note 2. Indirect Cost Rate

The Town has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

TOWN OF MERRILLVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	no

Identification of Major Program and type of auditor's report issued on compliance for it:

Assisted Listing Number	Name of Federal Program or Cluster	Opinion Issued
21.019	COVID-19 - Coronavirus Relief Fund	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? no

Section II - Financial Statement Findings

FINDING 2020-001

Subject: Financial Transactions and Reporting
Audit Findings: Material Weakness, Noncompliance

Condition and Context

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

Receipts

The Town had designed a process of review and oversight to ensure accuracy, completeness, timeliness, and proper classification of posted receipts. However, evidence of the implementation of the process was not provided.

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

Disbursements (Vendor)

The Town had designed a process of review and oversight to ensure accuracy, completeness, timeliness, and proper classification of posted vendor disbursements. However, evidence of the implementation of the process was not provided.

Disbursements (Payroll)

A review process had been established to ensure that payroll disbursements were posted properly and accurately; however, this process took place before the payroll disbursements were posted to the financial accounting system. A review or oversight process was not in place to ensure the accuracy, completeness, and classification of the payroll disbursements after posting to the financial accounting system occurred.

Financial Reporting

The Town did not have effective internal controls in place over financial reporting. The Town entered and electronically submitted the financial information into the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statement; however, internal controls were not effective and did not detect and allow correction of errors prior to submission. The lack of effective internal controls resulted in the following financial statement errors:

1. The financial statement's beginning cash and investment balance was overstated by \$48,332, which was a result of not reporting the December 31, 2019 audited ending cash and investment balance for the Town Court Tracking fund.
2. The financial statement's receipts and disbursements were understated by \$297,273 and \$336,493, respectively, which was a result of not reporting the activity for the Town Court Tracking fund.

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.

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. . . ."

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

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

"The state examiner shall require from every audited entity 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](#)."

Cause

Management had not established a proper system of internal controls related to receipts, disbursements, and financial reporting.

Effect

Without a proper system of internal controls that operated effectively, misstatements remained undetected. The errors identified are outlined in the *Condition and Context*.

Views of Responsible Officials

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

Section III - Federal Award Findings and Questioned Costs

No matters are reportable.

AUDITEE-PREPARED DOCUMENT

The subsequent document was provided by management of the Town. The document is presented as intended by the Town.

Town of Merrillville
Kelly White Gibson, Clerk-Treasurer
7820 Broadway, Merrillville, IN 46410
219.769.3501
kwgibson@merrillville.in.gov
www.merrillville.in.gov

CORRECTIVE ACTION PLAN

FINDING 2020-001

Financial Transactions and Reporting

Contact Person Responsible for Corrective Action: Kelly White-Gibson, Clerk-Treasurer
Contact Phone Number: 219/769-5711

We concur with the finding.

Description of Corrective Action Plan:

Receipts and Disbursements (Vendor)

The Deputy Clerks processing the Receipts and Disbursements (Vendor) is given to the secondary reviewer, who will then initial the documentation once reviewed, which includes a review of both the initial physical paperwork as well as the financial accounting system. We have created a form which clearly signifies the reviewer verified the imputed receipts and disbursements signs and initials the review as verified.

Disbursements (Payroll)

The Payroll Administrator will ensure the secondary review occurs once the payroll disbursements are posted in the financial accounting system. Furthermore, the secondary reviewer will sign a verification statement indicating the secondary review of the submitted paperwork and the financial accounting system has occurred.

Financial Reporting

This matter relates specifically to the Town Court Tracking Fund at year-end 2019 and has been rectified through the adjustment process during the audit covering that period. Furthermore, at that time the Town followed the recommendations of the SBOA. Due to the Court being closed by Council action and a lawsuit filed to enjoin the closing; it was unclear whether to report.

Actions

The Clerk-Treasurer will review the internal control procedures with the staff by 12/31/2021, as well as the Corrective Action Plan items listed above. The Bookkeeper will then spot check for the secondary reviews during the bank reconciliation process and notate same. The Office Manager will oversee the processes and spot check for secondary reviews daily, keeping a record of same and implement immediately.

Anticipated Completion Date: The meeting will occur by December 31, 2021, to then be immediately followed by implementation.

OTHER REPORTS

In addition to this report, other reports may have been issued for the Town. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.