

**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, 2020 to December 31, 2020



**FILED**  
01/14/2022



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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



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

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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, 2020 to December 31, 2020. 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/](http://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

December 16, 2021

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CLERK-TREASURER  
TOWN OF MERRILLVILLE

CLERK-TREASURER  
TOWN OF MERRILLVILLE  
AUDIT RESULTS AND COMMENTS

**CARES ACT FUND**

*Condition and Context*

The Town did not properly account for the Coronavirus Relief Fund (CRF) in accordance with the options outlined in State Examiner Directive 2020-3 (Directive).

1. A separate CARES grant fund, that followed the uniform chart of accounts, was not established.
2. Reimbursements from the Indiana Finance Authority (IFA) were receipted into a fund, which the Town identified as the COVID Relief fund, and into other Town funds.
3. For payroll claims, the Town moved 89 percent of the payroll costs originally incurred in the General fund to the COVID Relief fund through a reversing entry. However, 11 percent of the payroll claims were not reversed out of the General fund as required by option one of the Directive.
4. For costs other than payroll, the Town moved 75 percent of disbursements originally incurred in another fund to the COVID Relief fund through a reversing entry. However, 25 percent of the costs other than payroll were not reversed out of the various funds as required by framework one of the Directive.
5. At the end of 2020, the COVID Relief fund had a balance of \$1,680. The balance in the fund remained unchanged as of October 22, 2021.

By not receipting all reimbursements, as noted above, into the COVID Relief fund and processing reversing entries, the activity was not reflected in the correct funds and appropriations were not re-established. Additionally, due to not following the Directive, the Town did not include the correct amount of expenditures for the CRF on its Schedule of Expenditures of Federal Awards (SEFA). Audit adjustments were proposed, accepted by the Town, and made to the SEFA presented in the Federal Compliance Audit Report of the Town.

*Criteria*

**Each local unit of government that receives an allocation from the Coronavirus Relief Fund administered by IFA shall establish a separate CARES grant fund with a fund number consistent with memorandum *Accounting and Appropriation of COVID-19 Grants, April 29, 2020* (updated September 29, 2020).**

**All Reimbursements received from IFA shall be receipted into a separate CARES grant fund that is specific to IFA reimbursements. . . .**

Transactions for public health and safety payroll costs must be accounted for through one of these two prescribed options.

**Option One.** Reimbursements received from IFA shall be receipted into the separate CARES grant fund. The reimbursed amount for public health and safety payroll costs originally incurred in the general fund (or other fund) will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the general fund (or other fund) cash balance and re-appropriate the general fund (or other fund) in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

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

Once the disbursement is reversed within the general fund (or other fund), it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once option one is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

**Option Two.** Reimbursements received from IFA shall be receipted into the separate CARES grant fund. A claim will be created against the separate CARES grant fund for the reimbursed amount in favor of the general fund. This claim must be supported by documentation of the public health and safety payroll costs that have been expensed from the general fund or other funds.

The amount of the claim will be receipted into the general fund cash balance. Normal appropriation procedures will apply to these funds.

Once option two is completed, the cash balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. This option requires a resolution or ordinance as detailed in the memorandum CARES Reimbursement of Public Health and Safety Payroll Costs, September 30, 2020. . . .**

Transactions for other permitted costs reimbursed by IFA must be accounted for through one of the following prescribed frameworks.

**Framework One.** Reimbursements received from IFA shall be receipted into the separate CARES grant fund. Reimbursed disbursements originally incurred in another fund will be moved to the separate CARES grant fund through a reversing entry. This action will reinstate the fund cash balance and re-appropriate the fund in a similar manner to IC 6-1.1-18-9(1) for those disbursements. This reversal must be done in the same budget year that the original transaction was posted.

Once the disbursement is reversed within the original fund, it must be posted as a disbursement in the separate CARES grant fund. Documentation must be maintained so the audit trail can be followed. The accounting system must tie the original claim for the disbursement to the separate CARES grant fund by specific reference or notation in a comment section.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

**Framework Two.** If IFA has provided reimbursement based on unpaid invoices or purchase orders, then reimbursements received from IFA shall be receipted into the separate CARES grant fund. The expenditures to vendors will be made through the CARES grant fund and these expenditures must match the application made to IFA. If the actual invoice or invoices relating to a purchase order is less than the purchase order, then the difference in the money expended to the vendor and the amount received for the purchase order from IFA must be returned to IFA. The items on the invoice must match the items on the purchase order. All documentation must be maintained.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund. . . .**

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

**Framework Three.** If you have created a negative balance in your CARES fund based on expenditures made in anticipation of receipt of reimbursement for allowable expenditures where invoices have already been submitted to IFA then leave as is and receipt reimbursement when received, bringing the balance in the separate CARES grant fund to zero. Going forward, expend any anticipated allowable expenditures from a fund with an appropriation and follow framework one. If a negative balance in the CARES grant fund is not fully reimbursed, then the unreimbursed amount will require a reverse entry and posting of the expenditure to the general or other appropriate fund within an appropriated line item.

Once these steps are completed, the balance of the separate CARES grant fund will be zero. **No money shall remain in the separate CARES grant fund.** . . . (State Examiner Directive 2020-3)

### **FINANCIAL TRANSACTIONS AND REPORTING**

A similar comment also appeared in prior Reports B49987 and B56171, entitled *INTERNAL CONTROLS*.

#### *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.

#### *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. 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 the result of not reporting the December 31, 2019 audited ending cash and investment balance for the Town Court Tracking fund.

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

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. . . ."

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](#)."

**CERTIFICATION ON INTERNAL CONTROL STANDARDS**

*Condition and Context*

The Clerk-Treasurer incorrectly certified on the Annual Financial Report in the Indiana Gateway for Government Units financial reporting system on March 1, 2021, that the Town had provided employees with training over the internal controls. However, testing determined that four individuals should have received training in 2020 and did not.

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

*Context*

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](#)."

***MOTOR VEHICLE HIGHWAY (MVH) RESTRICTED***

A similar comment appeared in the prior Report B56171, entitled *MOTOR VEHICLE HIGHWAY - RESTRICTED FUND*.

*Condition and Context*

The Town created a Motor Vehicle Highway (MVH) Restricted fund as required. However, the Town did not allocate or deposit at least 50 percent of the distribution from the State MVH Account at the time of receipt into the MVH Restricted fund. The Town deposited \$393,556 into the MVH Restricted fund, which was less than the 50 percent required allocation of \$668,965. This resulted in a shortfall of \$275,409 receipted to the MVH Restricted fund.

The Town disbursed \$136,209 for payroll for MVH employees, including the secretary and superintendent's wages. The Town had no documentation that determined if the amount expended was directly associated with the construction, reconstruction, and preservation of the Town's highways.

*Criteria*

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)

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."



## Town of Merrillville

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*Kelly White Gibson, Esq.*  
CLERK - TREASURER

December 31, 2021

Via email ([pjoyce@sboa.in.gov](mailto:pjoyce@sboa.in.gov))

Indiana State Board of Accounts  
Attn: Paul D. Joyce, State Examiner  
301 W. Washington St.  
Room E418  
Indianapolis, IN 46204-2765

Re: Town of Merrillville, Indiana – Official Response to 2020 Audit Results and Comments

Dear Examiner Joyce,

Please let the following serve as the Official Response to the Clerk-Treasurer, Town of Merrillville, Audit Results and Comment for the period of January 1, 2020, through December 31, 2020.

### *CARES ACT FUND*

Condition and Context: “The Town did not properly account for the Coronavirus Relief Fund (CRF) in accordance with the options outlined in+ State Examiner Directive 2020-3 (Directive).”

1. A separate CARES grant fund, that followed the uniform chart of accounts, was not established.
2. Reimbursements from Indiana Finance Authority (IFA) were receipted into a fund, which the unit identified as the COVID Relief Fund 102, and into other Town funds.
3. For payroll claims the Town moved 89% of the payroll costs originally incurred in the General Fund to the COVID Relief Fund 102 through a reversing entry. However, 11% of the payroll claims were not reversed out of the General Fund as required by option one of the Directive.

4. For costs other than payroll the Town moved 75% of the disbursements originally incurred in another fund to the COID Relief Fund 102 through a reversing entry. However, 25% of the costs other than payroll were not reversed out of the various funds as required by framework one of the Directive.
5. At the end of 2020, the COIVD Relief Fund 102 had a balance of \$1,680.51. The balance in the fund remained unchanged as of October 22, 2021.

Response:

1. A separate CARES Fund was created by Resolution of the Town Council, but prior to the SBOA Directive regarding the specific fund number to be used, therefore the fund number did not match.
2. The Clerk-Treasurer acknowledges this occurred, but did create specific revenue lines titled "COVID Reimbursement Revenues" in each of the smaller three funds where COVID qualified expenses had occurred. The COVID Reimbursement Revenues deposited into each of the three smaller funds totaled the exact amount of COVID qualified expenses previously paid from those funds.
3. The Clerk-Treasurer believes the reversing entries were done correctly and in accordance with the SBOA Directives and therefore disputes this statement. The Bookkeeper was not asked to provide any clarification on this issue during the audit so there was no opportunity to explain prior to this comment being released. The only portion that was not able to be reversed is the \$1,680.51 amount listed in comment 5.
4. The Clerk-Treasurer believes the reversing entries were done correctly and in accordance with the SBOA Directives and therefore disputes this statement. The Bookkeeper was not asked to provide any clarification on this issue during the audit so there was no opportunity to explain prior to this comment being released. The only portion that was not able to be reversed is the \$1,680.51 amount listed in comment 5.
5. The Clerk-Treasurer acknowledges that a balance of \$1,680.51 remained in the CARES Act Fund at the end of 2020. This resulted from the inability to parse out three police officers' portion of the total Police Department Overtime expense during the time period related to the reimbursement request. This should have been rectified yet in 2020, but will be by the close of 2021.

#### *FINANCIAL TRANSACTIONS AND REPORTING*

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

Response and 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.

#### *CERTIFICIATON ON INTERNAL CONTROLS STANDARDS*

Condition: “The Clerk-Treasurer incorrectly certified on the Annual Financial Report in the Indiana Gateway for Government Units financial reporting system on March 1, 2021, that the Town had provided employees with internal controls training. However, testing determined that four individuals should have received training in 2020 and did not.”

Response: The Clerk-Treasurer, in conjunction with the newly hired Human Resource Director, have already put a system in place to ensure the training occurs as required. Each employee’s personnel file will be documented and a listing will be provided to the Clerk-Treasurer. The Clerk-Treasurer will confirm same before submission of the Annual Financial Report.

*MOTOR VEHICLE HIGHWAY (MVH) RESTRICTED*

Condition: "The Town created a Motor Vehicle Highway (MVH) Restricted fund as required. However, the Town did not allocate or deposit at least fifty percent (50%) of the distribution from the State Motor Vehicle Highway Account at the time of receipt into the MVH Restricted fund. The Town Deposited \$393,556 into the MVH Restricted Fund, which was less than the 50 percent required allocation of \$668,965. This resulted in a shortfall of \$275,409 received to the MVH Restricted fund.

The Town disbursed \$136,209 for payroll for MVH employees, including the secretary and superintendent's wages. The Town had no documentation that determined if the amount expended was directly associated with the construction, reconstruction and preservation of the Town's highways."

Response: The division of the distribution has been occurring consistently subsequent to this audit period, and will continue. The payroll expended for the secretary and superintendent was directly related to the planning, oversight, implementation and payment of qualified projects. The Public Works department keeps records of daily assignments, which were not requested during the audit.

Corrective Action Plan: The deposit of 50% of the State Motor Vehicle Highway distribution has already been addressed and accounted at a 50/50 split in 2021, and will continue as such. The Town's Bookkeeper and the Public Works Director and Superintendent are collectively monitoring the deposit balances each month to ensure the 50/50 split continues.

The Public Works Department previously had implemented a plan to use restricted funds on qualified projects. The addition of a supervisor signature will be added to the currently-used daily job assignment listing for the crew staff. As well, each employee will log the number of hours spent on a restricted project each day when they clock out. This log will then be used to account for the Restricted Funds expended. All daily assignment documentation and restricted project activity logs will be reviewed by either the Director or the Superintendent for compliance. The staff will continue to submit payroll through the Restricted Fund for only qualified projects.

Anticipated Completion Date: The supervisor signature has been implemented simultaneous with this response. The restricted project daily activity log will be implemented by January 7, 2021.

Respectfully submitted,



Kelly White-Gibson

Clerk-Treasurer

Town of Merrillville, Indiana

CLERK-TREASURER  
TOWN OF MERRILLVILLE  
EXIT CONFERENCE

The contents of this report were discussed on December 16, 2021, with Kelly White Gibson, Clerk-Treasurer; Rick Bella, President of the Town Council; Richard Hardaway, Vice President of the Town Council; Shawn Pettit, Town Council member; Leonard White, Town Council member; Patrick Reardon, Town Manager; Trista Hudson, Financial Advisor; Oralia Santos, 2021 Bookkeeper; Angie Chilcott, 2020 Bookkeeper; and Kathy Pettit, 2020 Payroll Administrator.

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TOWN COURT  
TOWN OF MERRILLVILLE

TOWN COURT  
TOWN OF MERRILLVILLE  
AUDIT RESULTS AND COMMENTS

**INTERNAL CONTROLS**

The same comment also appeared in prior Reports B49987 and B56171.

*Condition and Context*

There were deficiencies in the internal control system of the Town Court related to cash and investments and financial reporting.

*Cash and Investments (Bank Reconciliation)*

One individual was responsible for preparing the reconciliations of the accounting record balance to the bank depository balances without an oversight or review process in place to ensure the accuracy and timeliness of the reconciliations.

*Financial Reporting*

The Town did not report the Town Court's financial activity (receipts and disbursements) in the 2020 Annual Financial Report, which is the basis for the Town's financial statement. As a result, the Town Court Tracking fund beginning balance was overstated by \$48,332, and the receipts and disbursements were understated by \$297,273 and \$336,493, respectively, in the financial statement. There were no internal controls in place to ensure the Town Court's financial activity was accurately reported in 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 COURT  
TOWN OF MERRILLVILLE  
AUDIT RESULTS AND COMMENTS  
(Continued)

**BANK ACCOUNT RECONCILIATIONS**

The same comment also appeared in the prior Reports B49987 and B56171.

*Condition and Context*

The Town Court previously used Court View (a cash management and financial software program) and manual trust registers to process and post the Town Court's financial transactions. In 2019, the Town Court converted to a new software system. For the conversion to the new software system, the Town Court ceased using the old bank account and transferred the operating cash and investment balance to a new bank account. A balance remained in the old bank account for trust balances that have not yet been moved into the new software system from the manual trust registers related to the Court View system.

Monthly bank reconciliations for the trust items related to Court View bank account were not provided for the 2020 audit. Review of the bank account and manual trust registers noted the following:

1. The bank account contains interest earnings, which have not been receipted.
2. The disbursements from the old bank account would have been for transfers to the new software system bank account; however, the following variances were noted:
  - a. Transfers out of the old Court View bank account were \$1,437 greater than the amounts documented in the manual trust registers.
  - b. In July 2020, a \$4,170 disbursement, which should have been deposited into the new software bank account, was redeposited instead back into the old Court View bank account.
3. An estimated reconciliation of the manual trust register indicated that the record balance was greater than the bank balance by approximately \$40,697.

The Town Court did not provide accurate and complete bank reconciliations for the new software bank accounts. A computerized system reconciliation that tracks the bank activity was provided for some months instead of a bank to record reconciliation. A review of the December 2020 new bank account reconciliation noted the following:

1. An adjustment of \$47,456 on the reconciliation noted as a discrepancy was due to fees disbursed to the State of Indiana which had not been recorded in the accounting system.
2. Reconciling items from 2019 were still being carried in the December 2020 reconciliation instead of being resolved and recorded in the accounting system

*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 COURT  
TOWN OF MERRILLVILLE  
EXIT CONFERENCE

The contents of this report were discussed on December 16, 2021, with The Honorable Eugene M. Velazco, Town Judge; Chanda Flowers, Chief Administrator Officer; Kelly White Gibson, Clerk-Treasurer; Rick Bella, President of the Town Council; Richard Hardaway, Vice President of the Town Council; Shawn Pettit, Town Council member; Leonard White, Town Council member; Patrick Reardon, Town Manager; Trista Hudson, Financial Advisor; Oralia Santos, 2021 Bookkeeper; Angie Chilcott, 2020 Bookkeeper; and Kathy Pettit, 2020 Payroll Administrator.

TOWN COUNCIL  
TOWN OF MERRILLVILLE

TOWN COUNCIL  
TOWN OF MERRILLVILLE  
AUDIT RESULT AND COMMENT

**TRAINING ON INTERNAL CONTROL STANDARDS**

*Condition and Context*

The Town failed to ensure training was provided for personnel over the internal control standards adopted as required by Indiana Code 5-11-1-27(g). Testing determined that four individuals should have received the training in 2020 and did not.

*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."



Town of Merrillville  
7820 Broadway  
Merrillville, Indiana 46410  
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December 23, 2021

Indiana State Board of Accounts  
Attn: Paul D. Joyce, CPA, State Examiner  
301 W. Washington St.  
Room E418  
Indianapolis, IN 46204-2765

Re: Town of Merrillville, Indiana – Official Response to 2020 Audit Results and Comments

Dear Mr. Joyce,

Please let the following serve as the Official Response to the Town Council, Town of Merrillville, Audit Results and Comment for the period of January 1, 2020, through December 31, 2020.

*TRAINING ON INTERNAL CONTROLS STANDARDS*

Condition: “The Town failed to ensure training was provided for personnel over the internal control standards.”

Response: The Town recently hired a Human Resource Director who has been assigned the responsibility to ensure all employees receive training on both the Town’s Internal Control Standards and the State Board of Accounts recommended training. Documentation will be kept in each employee’s personnel file and a listing of compliance will be provided to the Clerk-Treasurer.

Respectfully submitted,

Patrick Reardon, Town Manager, on behalf of  
Rick Bella, Town Council President  
Town of Merrillville, Indiana

TOWN COUNCIL  
TOWN OF MERRILLVILLE  
EXIT CONFERENCE

The contents of this report were discussed on December 16, 2021, with Kelly White Gibson, Clerk-Treasurer; Rick Bella, President of the Town Council; Richard Hardaway, Vice President of the Town Council; Shawn Pettit, Town Council member; Leonard White, Town Council member; Patrick Reardon, Town Manager; Trista Hudson, Financial Advisor; Oralia Santos, 2021 Bookkeeper; Angie Chilcott, 2020 Bookkeeper; and Kathy Pettit, 2020 Payroll Administrator.

REDEVELOPMENT COMMISSION  
TOWN OF MERRILLVILLE

REDEVELOPMENT COMMISSION  
TOWN OF MERRILLVILLE  
AUDIT RESULTS AND COMMENT

**TAX INCREMENT FINANCING (TIF) ALLOCATION FUND USES**

*Condition and Context*

A Redevelopment Commission has the duties set forth in Indiana Code 36-7-14-11, which provides for the investigation, selection, acquisition development, and disposal of property in "areas needing redevelopment." The powers granted to a redevelopment commission in Indiana Code 36-7-14-12.2 allow the commission to develop property in the areas needing redevelopment and to carry out other activities "for redevelopment purposes." "Redevelopment" includes activities contained in Indiana Code 36-7-1-18.

The expenses noted below from Tax Increment Financing (TIF) allocation funds were not within the restricted uses authorized in Indiana Code 36-7-14-39(b)(3):

1. Legal services for the creation of a new TIF District in the amount of \$4,309.
2. Financial consulting services for the creation of a new TIF District and disclosure obligations in the amount of \$5,500.
3. Payments totaling \$44,520 on a contract between the Town of Merrillville and Gary Public Transportation Corporation for the provision of bus service.

*Criteria*

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.

REDEVELOPMENT COMMISSION  
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AUDIT RESULTS AND COMMENT  
(Continued)

(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, pay all or a part of a property tax replacement credit to taxpayers in an allocation area as determined by the redevelopment commission . . .

(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. . . .

(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 25)



**Town of Merrillville**  
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Merrillville, Indiana 46410  
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December 23, 2021

Indiana State Board of Accounts  
Attn: Paul D. Joyce, CPA, State Examiner  
301 W. Washington St.  
Room E418  
Indianapolis, IN 46204-2769

And via email ([pjoyce@sboa.in.gov](mailto:pjoyce@sboa.in.gov))

Re: Town of Merrillville, Indiana—Official Response to Audit Results and Comments

Dear Mr. Joyce:

The purpose of this letter is to provide the Town of Merrillville's Official Response to certain audit findings as follows:

“Operating expenses of the Redevelopment Commission (RDC), consisting of the items noted below, were disbursed from TIF allocation collections, which were not allowed within the restricted uses authorized in Indiana Code 36-7-14-39(b)(3):

1. Legal services such as preparing resolution, including the creation of a new TIF District, and TIF filings.
2. Financial consulting services for the creation of a new TIF District and disclosure obligations.
3. Contractual services for bus services.”

The Town's ability to pay the items listed in 1 and 2 from TIF funds is directly authorized by Indiana Code 36-7-14. This conclusion is confirmed by reading IC 36-7-14-39(b)(3)(G) in conjunction with IC 36-7-14-25.1(a)(2), cited in relevant part below.

**“IC 36-7-14-25.1 Issuance of bonds; procedure; tax exemption; limitations; indebtedness of taxing district; legislative body approval**

Sec. 25.1. (a) In addition to other methods of raising money for property acquisition or redevelopment in a redevelopment project area, and in anticipation of the special tax to be levied under section 27 of this chapter, the taxes allocated under section 39 of this chapter, or other revenues of the district, or any combination of these sources, the redevelopment commission may, by bond resolution and subject to subsections (c) and (p), issue the bonds of the special taxing district in the name of the unit. The amount

of the bonds may not exceed the total, as estimated by the commission, of all expenses reasonably incurred in connection with the acquisition and redevelopment of the property, including:

- (1) the total cost of all land, rights-of-way, and other property to be acquired and redeveloped;
- (2) **all reasonable and necessary architectural, engineering, legal, financing, accounting, advertising, bond discount, and supervisory expenses related to the acquisition and redevelopment of the property or the issuance of bonds;**
- (3) capitalized interest permitted by this chapter and a debt service reserve for the bonds to the extent the redevelopment commission determines that a reserve is reasonably required; and
- (4) expenses that the redevelopment commission is required or permitted to pay under IC 8-23-17.” (Emphasis supplied.)

**“IC 36-7-14-39 Distribution and allocation of taxes; allocation area; base assessed value determinations; allocation of excess assessed value**

Sec. 39.

(3) Except as otherwise provided in this section, property tax proceeds in excess of those described in subdivisions (1) and (2) 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:

(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.” (Emphasis supplied.)

Accordingly, the Town of Merrillville strongly believes that such expenditures were proper and clearly authorized by law. Further, it is the Town’s understanding that this position has long been widely held by countless government units across the State of Indiana.

With respect to item 3, the Town believes that the expenditures are permitted under Indiana Code 36-7-14-39(b)(3)(L), which reads in relevant part as cited below:

“(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.”

Indiana Code 36-9-41-1.5 defines an “eligible efficiency project” as follows:

“Sec. 1.5. As used in this chapter, “eligible efficiency project” means:

- (1) a project necessary or useful to carrying out an interlocal cooperation agreement entered into by two (2) or more political subdivisions or governmental entities under IC 36-1-7; or
- (2) **a project necessary or useful to the consolidation of local government services.**

The payments for bus service referred in item 3 are made pursuant to an agreement between the Town and the Gary Public Transportation Corporation for the express purposes of consolidating local government services. Accordingly, the Town has concluded that such payments fit comfortably within the authority of Indiana Code 36-7-14-39(b)(3)(L).

Respectively submitted,



Patrick Reardon, Town Manager,  
Town of Merrillville, Indiana

REDEVELOPMENT COMMISSION  
TOWN OF MERRILLVILLE  
EXIT CONFERENCE

The contents of this report were discussed on December 16, 2021, with Kelly White Gibson, Clerk-Treasurer; Rick Bella, President of the Town Council; Richard Hardaway, Vice President of the Redevelopment Commission; Shawn Pettit, President of the Redevelopment Commission; Leonard White, Town Council member; Patrick Reardon, Town Manager; Trista Hudson, Financial Advisor; Oralia Santos, 2021 Bookkeeper; Angie Chilcott, 2020 Bookkeeper; and Kathy Pettit, 2020 Payroll Administrator.