

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MICHIGAN CITY

LAPORTE COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
05/18/2016

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Transmittal Letter	3
Controller:	
Federal Findings:	
Finding 2014-001 - Financial Transactions.....	6
Finding 2014-002 - The Schedule of Expenditures of Federal Awards.....	6-7
Finding 2014-003 - Cash Management	7-8
Finding 2014-004 - Equipment Management	8-9
Finding 2014-006 - Cash Management and Reporting.....	10
Corrective Action Plan	11-15
Audit Result and Comment:	
Ordinances and Resolutions - Travel.....	16-17
Official Response.....	18
Exit Conference	19
Sanitary District:	
Federal Finding:	
Finding 2014-003 - Cash Management	22
Corrective Action Plan.....	23
Exit Conference	24
Board of Public Works And Safety:	
Federal Finding:	
Finding 2014-005 - Procurement and Suspension and Debarment	26-28
Corrective Action Plan.....	29
Exit Conference	30
Transit:	
Federal Finding:	
Finding 2014-006 - Cash Management and Reporting.....	32
Corrective Action Plan	33
Exit Conference	34
Central Services:	
Federal Finding:	
Finding 2014-005 - Procurement and Suspension and Debarment	36-38
Corrective Action Plan.....	39
Exit Conference	40
Common Council:	
Audit Result and Comment:	
Compensation and Benefits - Cemetery Superintendent	42
Exit Conference	43
Cemetery:	
Audit Result and Comment:	
Compensation and Benefits - Cemetery Superintendent	46
Exit Conference	47

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Mayor	Ron Meer	01-01-12 to 12-31-19
Controller	Donna Pappas Yvonne Hoffmaster (Interim) Stephen Janus (Interim) Richard M. Murphy	01-01-14 to 01-16-15 01-17-15 to 01-25-15 01-26-15 to 12-31-15 01-01-16 to 12-31-16
President of the Board of Public Works and Safety	Stephen Janus	01-01-14 to 12-31-16
President of the Common Council	Duane Perry Chris Schwanke Timothy Bietry	01-01-14 to 12-31-14 01-01-15 to 12-31-15 01-01-16 to 12-31-16
Superintendent of Water Utility	Randall E. Russell	01-01-14 to 12-31-16
Sanitary District Manager	Michael Kuss	01-01-14 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF MICHIGAN CITY, LAPORTE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Michigan City (City), for the period from January 1, 2014 to December 31, 2014. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

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

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

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

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

March 8, 2016

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CONTROLLER
CITY OF MICHIGAN CITY

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CITY OF MICHIGAN CITY
FEDERAL FINDINGS

FINDING 2014-001 - FINANCIAL TRANSACTIONS

We noted several deficiencies in the internal control system of the City related to financial transactions.

1. Lack of Segregation of Duties: The City has not separated incompatible activities related to the processing of electronic disbursements. The failure to establish these controls could enable material misstatements or irregularities to remain undetected. Control activities should be in place to reduce the risks of errors in financial reporting.

Journal entries for disbursements withdrawn from the City's bank accounts as electronic funds transfers (EFT's) are created and recorded in the ledger by the Controller's Office personnel. Claims are not prepared for these journal entries nor are they included on a Claim Docket Allowance for Vouchers and, are therefore, not approved by the governing body.

2. Bank reconcilements were completed on a consistent basis. However, City officials failed to properly document that the reconcilements had been reviewed by someone other than the preparer to ensure that identified reconciling items were appropriate, supported, and recorded timely.
3. Receipts are entered into the accounting software by various department personnel. The Controller's Office verifies the receipt amounts with the deposits prior to recording them in the ledger. However, City officials failed to properly document that the receipts were verified with the deposits by Controller's Office personnel prior to recording them in the ledger.
4. Monitoring of Controls: An evaluation of the City's system of internal control has not been conducted. The failure to monitor the internal control system places the City at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls will prevent, or detect and correct, material misstatements in a timely manner. Additionally, the City has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting require the City to monitor and assess the quality of the system of internal control.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FINDING 2014-002 - THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The Deputy Controller independently prepared the SEFA for inclusion in the financial report without oversight, review, or approval. A proper system of internal controls would include segregation of duties by having a proper oversight, review, or approval process and would allow the City to prevent, detect, or correct errors on the SEFA in a timely manner. A lack of segregation of duties within an internal control system could allow material misstatements of the SEFA to remain undetected.

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CITY OF MICHIGAN CITY
FEDERAL FINDINGS
(Continued)

During the audit of the SEFA, we noted that expenditures for the Capitalization Grants for Clean Water State Revolving Funds were overstated by \$3,856,885, and the expenditures for the Equitable Sharing Program were understated by \$19,887. In addition, the program title for one program was incorrect and three programs reported the incorrect CFDA number. Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available . . . "

FINDING 2014-003 - CASH MANAGEMENT

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
Federal Award Number: WW13114602
Pass-Through Entity: Indiana Finance Authority

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CITY OF MICHIGAN CITY
FEDERAL FINDINGS
(Continued)

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Cash Management compliance requirements of the Capitalization Grants for Clean Water State Revolving Funds (SRF) program. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

The City has not designed or implemented adequate policies or procedures to ensure compliance with Cash Management requirements. An Administrative Assistant was responsible for preparing and submitting the requests for reimbursement to the Indiana Finance Authority for the SRF program. These requests were not subjected to a review prior to submission to ensure that expenditures were made prior to requesting reimbursement. An oversight, review, or approval process has not been established.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and Cash Management compliance requirements of the program.

FINDING 2014-004 - EQUIPMENT MANAGEMENT

Federal Agency: Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Federal Award Number: DES# 1172400
Pass-Through Entity: Indiana Department of Transportation

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CITY OF MICHIGAN CITY
FEDERAL FINDINGS
(Continued)

Internal Control

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Equipment Management compliance requirements of the Highway Planning and Construction program. The failure to establish an effective internal control system places the city at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

The City has not designed or implemented internal control procedures to ensure compliance with the requirements for Equipment Management. The City did not have controls in place to properly identify and track equipment purchased with federal program funds.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Compliance

The City purchased a natural gas vector truck with federal program funds. The City's capital asset records did not include a category to identify that the asset had been purchased with Federal funds or to track the percentage of Federal participation in the purchase of the truck as required. This identification is necessary to ensure that the disposition of the asset will be handled in accordance with federal guidelines.

49 CFR 18.32 (d)(1) states:

"Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property."

The failure to establish internal controls enabled material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish controls to ensure compliance and comply with the Equipment Management requirements of the program.

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CITY OF MICHIGAN CITY
FEDERAL FINDINGS
(Continued)

FINDING 2014-006 - CASH MANAGEMENT AND REPORTING

Federal Agency: Department of Transportation
Federal Program: Federal Transit – Formula Grants
CFDA Number: 20.507
Federal Award Number: IN-90-4660, IN-95-0045

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Cash Management and Reporting compliance requirements of the Federal Transit_Formula Grants program. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

The City has not designed or implemented procedures over the preparation and submission of the claims for reimbursement to ensure compliance with the Cash Management and Reporting requirements. One individual was responsible for preparing and submitting required reports on the Federal Transit Administration website. Officials stated that reports were reviewed prior to submission; however, evidence of a review or oversight process to ensure that reports are accurate and complete and in compliance with the Cash Management and Reporting requirements was not provided.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and Cash Management and Reporting compliance requirements of the program.



MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

CORRECTIVE ACTION PLAN

FINDING 2014-001

Contact Person Responsible for Corrective Action: Richard Murphy, City Controller
Contact Phone Number: 219 873-1404 ext. 361

Description of Corrective Action Plan:

1. Electronic disbursements will be added to the claims dockets. They will be approved by the Board of Public Works and Safety regularly scheduled meetings.
2. Bank reconcilements will continue to be completed on a consistent basis. Once the reconcilements are completed, they will be reviewed by the Controller or Assistant Controller and initialed. The documents will then be filed with the other monthly documents.
3. The Controller's Office personnel will continue to verify receipts against the bank deposits. The documentation used from the bank to verify the receipts will be maintained and filed with the other monthly documents
4. An evaluation will be performed and a process will be created to assist in identifying and/or correcting any deficiencies that could improve the internal controls.

Anticipated Completion Date:

Items one through three have already been implemented as of November 2015. Item four will be addressed and implemented by the end of fiscal year 2016.

A handwritten signature in black ink, appearing to read "Richard Murphy", is written over a horizontal line.

(Signature)

City Controller

March 7, 2016

RON MEER – MAYOR

City of Michigan City ~ City Hall ~ 100 East Michigan Boulevard, Michigan City, IN 46360 ~ 219.873.1400 ~ fax 219.873.1515
web ~ emichigancity.com e-mail ~ mayormeer@emichigancity.com



MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

CORRECTIVE ACTION PLAN

FINDING 2014-002

Contact Person Responsible for Corrective Action: Richard Murphy, City Controller
Contact Phone Number: 219 873-1404 ext. 361

Description of Corrective Action Plan:

A policy has been developed to track grants from inception to award. This policy will be reviewed and redistributed to all grant receiving departments. Another staff member in the Controller's Office will double check the data input into Gateway to insure that all data entered has been accepted by Gateway. CFDA numbers will continued to be googled and the exact name of each program will be reported on the SEFA. The overstatement of federal expenditures will be corrected with the stricter compliance of the existing policy and with the actions taken in the corrective action plan of finding 2014-003. We will continue to improve on communications with all the departments.

Anticipated Completion Date:

This policy was implemented in September 2014 and will continue to be monitored to until all departments are in full compliance.

A handwritten signature in black ink, appearing to read "Richard Murphy", is written over a horizontal line.

(Signature)
City Controller
March 7, 2016

RON MEER – MAYOR

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MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

CORRECTIVE ACTION PLAN

FINDING 2014-003

Contact Person Responsible for Corrective Action: Richard Murphy, City Controller
Contact Phone Number: 219 873-1404 ext. 361

Description of Corrective Action Plan:

A procedure will be implemented to address the segregation of duties when preparing and submitting requests to the Indiana Finance Authority for the SRF program. The preparation of the documents will be conducted by staff at the Michigan City Sanitary District. This documentation will be forwarded to the Controller's Office and the documentation will be reviewed by the AP/AR staff. The payment request will be approved by the Controller and the payment request will be submitted to the IFA for distribution by the Assistant Controller or Internal Auditor. We will continue to improve on communications with all departments.

Anticipated Completion Date:

The procedure is currently being prepared and will be in effect by April 2016.

A handwritten signature in black ink, appearing to read "Richard Murphy", is written over a horizontal line.

(Signature)

City Controller

March 7, 2016

RON MEER – MAYOR

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MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

CORRECTIVE ACTION PLAN

FINDING 2014-004

Contact Person Responsible for Corrective Action: Richard Murphy, City Controller
Contact Phone Number: 219 873-1404 ext. 361

Description of Corrective Action Plan:

The policy for tracking grants will be utilized more thoroughly. The Internal Auditor that records and tracks the fixed assets will be more involved with the grant process by noting all equipment that will be purchased with grant dollars. We will continue to improve on communication within the office.

Anticipated Completion Date:

This process has been implemented as of November 2015.

A handwritten signature in black ink, appearing to read "Richard Murphy", is written over a horizontal line.

(Signature)
City Controller
March 7, 2016

RON MEER – MAYOR



MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

CORRECTIVE ACTION PLAN

FINDING 2014-006

Contact Person Responsible for Corrective Action: Richard Murphy, City Controller
Contact Phone Number: 219 873-1404 ext. 361

Description of Corrective Action Plan:

The procedure utilized for the preparation and submitting of grant reimbursements for MC Transit will be updated to include a signature from the Assistant Controller and the Transit Director. The signatures will verify the accuracy of the numbers prepared and submitted.

Anticipated Completion Date:

The update of the procedure will be completed and implemented by March 31, 2016.

A handwritten signature in black ink, appearing to read "Richard Murphy", is written over a horizontal line.

(Signature)
City Controller
March 7, 2016

RON MEER – MAYOR

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CONTROLLER
CITY OF MICHIGAN CITY
AUDIT RESULT AND COMMENT

ORDINANCES AND RESOLUTIONS - TRAVEL

The review of travel claims revealed two instances in which insufficient documentation was included with the claim paid by the Controller's office. We were unable to determine if the reimbursement complied with the travel policy.

In one instance, the employee was at a meeting for four days but did not receive the maximum travel that could have been allowed for those days. The travel claim paid to the employee did not have an explanation for the difference. Subsequent inquiry of officials revealed some meals had been provided at the meeting and were, therefore, not reimbursed to the employee.

In another instance, conference information attached to the claim indicated that all meals were provided during the meeting; however, some meals were still reimbursed. There was no information provided to indicate when the employee was actually in travel status and entitled to be reimbursed for meals either before or after the meetings.

The City of Michigan City adopted Ordinance 4162 concerning Travel Rules, Regulations, and Reimbursements for municipal employees and officials.

The ordinance states: "Sec. 2-118 (d):

1. Overnight travel:
 - a. If an employee travels on City business and is authorized to stay overnight, the employee will be paid a per diem allowance for meals and incidental expenses. No receipts are required to substantiate the per diem allowance. The per diem rate is \$50 per 24-hour day. The rate for the beginning and ending days of the employee's travel will be pro-rated by one-half days as follows:

CONTROLLER
CITY OF MICHIGAN CITY
AUDIT RESULT AND COMMENT
(Continued)

1. If the employee begins his travel (leaves home or work) before 8:00 am, he will receive \$50 for the day that the travel begins.
2. If the employee begins his travel (leaves home or work) after 8:00 a.m., he will receive \$25 for the day that the travel begins.
3. If the employee ends his travel (returns to home or work) before 12:00 noon, he will receive \$25.00 for the day that the travel ends.
4. If the employee ends his travel (returns to home or work) after 12:00 noon, he will receive \$50 for the day that the travel ends.

Claims for reimbursement of meals and incidental expenses, whether the per diem allowance applies (overnight travel) or whether the reimbursement of actual cost applies (daily travel) shall be submitted on forms approved by the State Board of Accounts and, when applicable, shall be accompanied by itemized receipts."

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

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)



MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com
March 16, 2016

State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, IN 46204-2765

Re: **OFFICIAL RESPONSE**

This is the official response of the City of Michigan City to the audit results and comments contained in the City's audit report for the year 2014.

ORDINANCES AND RESOLUTIONS - TRAVEL

The review of two travel claims revealed insufficient documentation to determine if the reimbursement was in compliance with our Travel Policy. Since 2014, the Controller's Office has restructured its staff. This included more thorough job descriptions and redesigning the AP/AR clerk position. This has resulted in a more thorough audit of the claims to ensure proper documentation is included. We have also issued copies of the Travel Policy to all departments along with a thorough explanation of the documentation needed for reimbursement.

COMPENSATION AND BENEFITS – CEMETERY SUPERINTENDENT

Compensation and benefits were paid to the Cemetery Superintendent that were not paid through the payroll system (W-2) or included in the salary ordinance. The Cemetery Superintendent is paid a commission on sale of monuments, lots, crypts and niches at the City's two cemeteries through an agreement between him and the Cemetery Board. This practice will be discontinued immediately and steps will be taken to amend the Salary Ordinance. All compensation and benefits paid to officials and employees will be included in the Salary Ordinance adopted by the legislative body unless otherwise authorized by statute and all compensation will be made in compliance with IRS regulations.

As always, the audit team assigned to the City was professional, courteous, and helpful.

Respectfully,

A handwritten signature in black ink, appearing to read "Richard P. Murphy".

Richard P. Murphy
City Controller

RON MEER – MAYOR

City of Michigan City ~ City Hall ~ 100 East Michigan Boulevard, Michigan City, IN 46360 ~ 219.873.1400 ~ fax 219.873.1515
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CONTROLLER
CITY OF MICHIGAN CITY
EXIT CONFERENCE

The contents of this report were discussed on March 8, 2016, with Richard M. Murphy, Controller; Yvonne Hoffmaster, Deputy Controller; and Donna Pappas, former Controller.

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SANITARY DISTRICT
CITY OF MICHIGAN CITY

SANITARY DISTRICT
CITY OF MICHIGAN CITY
FEDERAL FINDING

FINDING 2014-003 - CASH MANAGEMENT

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
Federal Award Number: WW13114602
Pass-Through Entity: Indiana Finance Authority

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Cash Management compliance requirements of the Capitalization Grants for Clean Water State Revolving Funds (SRF) program. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

The City has not designed or implemented adequate policies or procedures to ensure compliance with Cash Management requirements. An Administrative Assistant was responsible for preparing and submitting the requests for reimbursement to the Indiana Finance Authority for the SRF program. These requests were not subjected to a review prior to submission to ensure that expenditures were made prior to requesting reimbursement. An oversight, review, or approval process has not been established.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and Cash Management compliance requirements of the program.



MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

CORRECTIVE ACTION PLAN

FINDING 2014-003

Contact Person Responsible for Corrective Action: Richard Murphy, City Controller
Contact Phone Number: 219 873-1404 ext. 361

Description of Corrective Action Plan:

A procedure will be implemented to address the segregation of duties when preparing and submitting requests to the Indiana Finance Authority for the SRF program. The preparation of the documents will be conducted by staff at the Michigan City Sanitary District. The Sanitary District Board will approve submission for payment. After approval by the Board, the documentation will be forwarded to the Controller's Office and the documentation will be reviewed by the AP/AR staff. The payment request will be approved by the Controller and the payment request will be submitted to the IFA for distribution by the Assistant Controller or Internal Auditor. We will continue to improve on communications with all departments.

Anticipated Completion Date:

The procedure is currently being prepared and will be in effect by April 2016.

A handwritten signature in black ink, appearing to read "Richard Murphy", is written over a horizontal line.

(Signature)
City Controller
March 7, 2016

RON MEER – MAYOR

City of Michigan City ~ City Hall ~ 100 East Michigan Boulevard, Michigan City, IN 46360 ~ 219.873.1400 ~ fax 219.873.1515
web ~ emichigancity.com e-mail ~ mayormeer@emichigancity.com

SANITARY DISTRICT
CITY OF MICHIGAN CITY
EXIT CONFERENCE

The contents of this report were discussed on March 8, 2016, with Michael Kuss, Sanitary District Manager; Doretha Sanders-Malone, Administrative Director; and James Meyer, Sanitary District Attorney.

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF MICHIGAN CITY

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF MICHIGAN CITY
FEDERAL FINDING

FINDING 2014-005 - PROCUREMENT AND SUSPENSION AND DEBARMENT

Federal Agency: Department of Transportation
Federal Program: Federal Transit_Formula Grants
CFDA Number: 20.507
Federal Award Number and Year: IN-90-4660

Internal Controls

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Procurement and Suspension and Debarment compliance requirement of the Federal Transit_Formula Grants program. The failure to establish an effective internal control system places the city at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow non-compliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

The City has not designed or implemented internal control procedures to ensure compliance with the Procurement and Suspension and Debarment requirements of the program. There was no segregation of duties, such as an oversight, review, or approval process to ensure compliance with applicable local, state, and federal laws regarding these requirements.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Compliance

The City has not established proper procedures for the procurement of diesel and unleaded fuel. During 2014, the City procured \$704,147 of diesel and unleaded fuel from local vendors. The purchases were in batches approximately every three weeks and were made without the approval of the City Board of Public Works and Safety. The City has not entered into a written contract with these local vendors from which they procure fuel, nor has the City determined if the local vendors have been suspended or debarred from participation in federal programs.

49 CFR 18.36 (b) states in part: "*Procurement standards.* (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section . . . "

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF MICHIGAN CITY
FEDERAL FINDING
(Continued)

Indiana Code 5-22-17-10 states:

"(a) As used in this section, "petroleum products" includes the following:

- (1) Gasoline.
- (2) Fuel oils.
- (3) Lubricants.
- (4) Liquid asphalt.

(b) A purchasing agent may award a contract for petroleum products to:

- (1) the lowest responsible and responsive offeror; or
- (2) all responsible and responsive offerors.

(c) A contract entered into under this section may allow for the escalation or de-escalation of price.

(d) This subsection applies to a petroleum products contract that is awarded to all responsible and responsive offerors as provided in subsection (b). The purchasing agent must purchase the petroleum products from the lowest of the responsible and responsive bidders. The contract must provide that the bidder from whom petroleum products are being purchased shall provide five (5) business days written notice of any change in price. Upon receipt of written notice, the purchasing agent shall request current price quotes in writing based upon terms and conditions of the original offer (as awarded) from all successful responsible and responsive offerors. The purchasing agent shall record the quotes in minutes or memoranda. The purchasing agent shall purchase the petroleum products from the lowest responsible and responsive offeror, taking into account the price change of the current supplier and the price quotes of the other responsible and responsive offerors."

49 CFR 18.35 states:

"Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, 'Debarment and Suspension.'"

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

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

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

- . . . (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF MICHIGAN CITY
FEDERAL FINDING
(Continued)

The failure to establish internal controls enabled material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish controls to ensure compliance and comply with the Procurement and Suspension and Debarment requirements of the program.



MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

CORRECTIVE ACTION PLAN

FINDING 2014-005

Contact Person Responsible for Corrective Action: Richard Murphy, City Controller
Contact Phone Number: 219 873-1404 ext. 361

Description of Corrective Action Plan:

A policy and procedure will be developed for the procurement of diesel fuel and unleaded gasoline. The procedure will outline the process of purchasing the fuel. The policy will include the procedure for purchasing as well as the determination if the vendors have been suspended or debarred from participation in federal programs. This policy will be approved by the Board of Public Works and Safety at the beginning each year.

Anticipated Completion Date:

The policy and procedure will be completed by June 30, 2016.

A handwritten signature in black ink, appearing to read "Richard Murphy", is written over a horizontal line.

(Signature)
City Controller
March 7, 2016

RON MEER – MAYOR

City of Michigan City ~ City Hall ~ 100 East Michigan Boulevard, Michigan City, IN 46360 ~ 219.873.1400 ~ fax 219.873.1515
web ~ emichigancity.com e-mail ~ mayormeer@emichigancity.com

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF MICHIGAN CITY
EXIT CONFERENCE

The contents of this report were discussed on March 8, 2016, with Stephen Janus, President of the Board of Public Works and Safety.

TRANSIT
CITY OF MICHIGAN CITY

TRANSIT
CITY OF MICHIGAN CITY
FEDERAL FINDING

FINDING 2014-006 - CASH MANAGEMENT AND REPORTING

Federal Agency: Department of Transportation
Federal Program: Federal Transit – Formula Grants
CFDA Number: 20.507
Federal Award Number: IN-90-4660, IN-95-0045

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Cash Management and Reporting compliance requirements of the Federal Transit_Formula Grants program. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

The City has not designed or implemented procedures over the preparation and submission of the claims for reimbursement to ensure compliance with the Cash Management and Reporting requirements. One individual was responsible for preparing and submitting required reports on the Federal Transit Administration website. Officials stated that reports were reviewed prior to submission; however, evidence of a review or oversight process to ensure that reports are accurate and complete and in compliance with the Cash Management and Reporting requirements was not provided.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement or a compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and Cash Management and Reporting compliance requirements of the program.



MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

CORRECTIVE ACTION PLAN

FINDING 2014-006

Contact Person Responsible for Corrective Action: Richard Murphy, City Controller
Contact Phone Number: 219 873-1404 ext. 361

Description of Corrective Action Plan:

The procedure utilized for the preparation and submitting of grant reimbursements for MC Transit will be updated to include a signature from the Assistant Controller and the Transit Director. The signatures will verify the accuracy of the numbers prepared and submitted.

Anticipated Completion Date:

The update of the procedure will be completed and implemented by March 31, 2016.

A handwritten signature in black ink, appearing to read "Richard Murphy", is written over a horizontal line.

(Signature)
City Controller
March 7, 2016

RON MEER – MAYOR

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TRANSIT
CITY OF MICHIGAN CITY
EXIT CONFERENCE

The contents of this report were discussed on March 8, 2016, with Robin Barzoni-Tillman, Transit Director.

CENTRAL SERVICES
CITY OF MICHIGAN CITY

CENTRAL SERVICES
CITY OF MICHIGAN CITY
FEDERAL FINDING

FINDING 2014-005 - PROCUREMENT AND SUSPENSION AND DEBARMENT

Federal Agency: Department of Transportation
Federal Program: Federal Transit_Formula Grants
CFDA Number: 20.507
Federal Award Number and Year: IN-90-4660

Internal Controls

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OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

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49 CFR 18.36 (b) states in part: "*Procurement standards.* (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section . . . "

CENTRAL SERVICES
CITY OF MICHIGAN CITY
FEDERAL FINDING
(Continued)

Indiana Code 5-22-17-10 states:

"(a) As used in this section, "petroleum products" includes the following:

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CENTRAL SERVICES
CITY OF MICHIGAN CITY
FEDERAL FINDING
(Continued)

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We recommended that the City's management establish controls to ensure compliance and comply with the Procurement and Suspension and Debarment requirements of the program.



MICHIGAN CITY INDIANA

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CORRECTIVE ACTION PLAN

FINDING 2014-005

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Anticipated Completion Date:

The policy and procedure will be completed by June 30, 2016.

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(Signature)
City Controller
March 7, 2016

RON MEER – MAYOR

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CENTRAL SERVICES
CITY OF MICHIGAN CITY
EXIT CONFERENCE

The contents of this report were discussed on March 8, 2016, with Robert Zondor, Central Services Superintendent.

COMMON COUNCIL
CITY OF MICHIGAN CITY

COMMON COUNCIL
CITY OF MICHIGAN CITY
AUDIT RESULT AND COMMENT

COMPENSATION AND BENEFITS - CEMETERY SUPERINTENDENT

Compensation and benefits were paid to the Cemetery Superintendent that were not included in the payroll system or on the salary ordinance. The Cemetery Superintendent received \$55,754 as authorized by the City Council through the Salary Ordinance for 2014. In addition to this compensation, the Superintendent received \$18,429 in the form of commissions based on sales at the cemetery as provided in an agreement with the Cemetery Board.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COMMON COUNCIL
CITY OF MICHIGAN CITY
EXIT CONFERENCE

The contents of this report were discussed on March 8, 2016, with Patricia Boy, Common Council member; Allan Whitlow, Common Council member; Ron Meer, Mayor; and James Meyer, Council Attorney.

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CEMETERY
CITY OF MICHIGAN CITY

CEMETERY
CITY OF MICHIGAN CITY
AUDIT RESULT AND COMMENT

COMPENSATION AND BENEFITS - CEMETERY SUPERINTENDENT

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CEMETERY
CITY OF MICHIGAN CITY
EXIT CONFERENCE

The contents of this report were discussed on March 9, 2016, with Mark Tomsheck, Superintendent; and Duane Mertl, Cemetery Board President.