

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CITY OF GARY
LAKE COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
09/30/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	M. Celita Green	01-01-12 to 12-31-13
Mayor	Karen Freeman-Wilson	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Delvert Cole Niquelle Allen	01-01-12 to 02-26-13 02-27-13 to 12-31-13
President of the Common Council	Kyle W. Allen, Sr.	01-01-12 to 12-31-13
Executive Director of the Sanitary and Storm Water Management Districts	Rinzer Williams, III (Vacant) Daniel F. Vicari	01-01-12 to 02-28-12 03-01-12 to 07-29-12 07-30-12 to 12-31-13
President of the Boards of Sanitary and Storm Water Commissioners	Richard J. Comer	01-01-12 to 12-31-13



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF GARY, LAKE COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the City of Gary (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated August 29, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

Other Information

The City's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the City's response and, accordingly, we express no opinion on it.



Bruce Hartman
State Examiner

August 29, 2013



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

TO: THE OFFICIALS OF THE CITY OF GARY, LAKE COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the City of Gary (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated August 29, 2013, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-01 and 2012-02 to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-2.

City of Gary's Response to Findings

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

Purpose of This Report

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



Bruce Hartman
State Examiner

August 29, 2013

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF GARY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
General	\$ (4,906,451)	\$ 65,718,662	\$ 67,620,683	\$ (6,808,472)
Motor Vehicle Highway	72,237	2,403,442	2,263,087	212,592
Local Road And Street	523,625	976,258	1,391,271	108,612
Law Enforcement Continuing Education	168,529	92,056	99,624	160,961
Unsafe Building	158,899	4,437	-	163,336
Riverboat	1,708,910	23,225,451	23,695,143	1,239,218
Parks And Recreation	170,739	1,156,164	1,324,266	2,637
Cumulative Capital Development	44,762	358,972	73,367	330,367
Cumulative Capital Improvement	58,756	213,299	242,183	29,872
Self-Insurance	(333,253)	10,515,848	9,911,009	271,586
Police Pension	2,058,144	4,333,793	5,093,319	1,298,618
Fire Pension	2,748,837	4,718,799	4,749,062	2,718,574
J-Pit/Landfill Management	39,197	45,978	2,697	82,478
Geminus Grant	(683)	20,000	12,744	6,573
FireFighter SAFER Grant	(788,954)	2,139,631	1,630,589	(279,912)
Note Reserve	1,354,737	645,760	-	2,000,497
Bond Revenue	20,514,277	1,678	9,344,004	11,171,951
Metro Center	6,854	72,350	77,270	1,934
Regional Development Authority	-	5,250,000	5,250,000	-
ARRA Public Works	-	143,475	143,474	1
2012 Genesis Center Renovation	-	4,500,000	3,026,483	1,473,517
Lets Move Project	-	10,000	6,334	3,666
Fire Department Equipment	-	7,200	5,364	1,836
Department of Commerce	-	132,000	120,414	11,586
Cops Technology	-	169,835	86,886	82,949
Note Repayment	-	2,585,804	2,585,804	-
Narcotics Vice	-	9,180	-	9,180
Health Radon Gas	-	4,011	-	4,011
Gun Buy Back	-	3,500	-	3,500
Law Non-reverting	-	14,989	-	14,989
Fair Housing	-	11,205	-	11,205
TIF Bond Reserve	-	450,000	-	450,000
2012 Note Payment	-	29,418	29,418	-
Casino Capital	-	52,963	52,963	-
WCI/UCI Benefit	-	1,081,577	1,081,577	-
CDBG-R Street Improvement	-	3,608	3,608	-
Ambulance/EMS Nonreverting	30,468	1,428,374	2,280,980	(822,138)
Protective Services Grant I	(1,033,929)	-	-	(1,033,929)
Protective Services Grant II	317,453	45,174	307,540	55,087
Equal Opportunity Commission Hr	10,415	39,000	47,379	2,036
Tourism Project	82,201	-	32,210	49,991
Youth Services Bureau	237,813	79,368	88,942	228,239
Home Program	6,180	597,103	596,176	7,107
Emergency Shelter Grant	1,162	24,535	25,589	108
Brownfield	161,209	289,823	190,242	260,790
Healthy Families	17,278	38	4,540	12,776
Marquette Park	2,131	239,372	237,520	3,983
Gleason Golf Course	2,430	224,945	217,674	9,701
Emergency Shelter	(421,344)	421,401	464,839	(464,782)
Comprehensive Community Program	79,657	44,177	65,508	58,326
Landfill Closure	120,957	33,879	53,793	101,043
Landfill Trust	1,139,046	81,916	-	1,220,962
Solid Waste Recycling Project	242,139	676,431	669,383	249,187
Environmental Management	(7,866)	57,214	35,762	13,586
Health And Human Services	(293,041)	640,393	799,262	(451,910)
Supplemental Adult Probation Svcs	185,884	87,775	151,506	122,153
Gary Health Department Rental	5,545	4,448	1,777	8,216
Park Nonreverting	18,127	90,433	104,198	4,362
Vehicle Auction	32,085	93,343	78,480	46,948
Bioterrorism	(8,678)	38,388	38,388	(8,678)
Community Development Block Grant	152,856	3,222,568	3,215,722	159,702
Redevelopment Operating	50,111	114,348	111,540	52,919
Summer Jobs Training Program	-	30,340	21,564	8,776
Fair Housing Project	59,524	59,980	67,956	51,548
Genesis Civic Center	36,680	170,809	207,481	8
Media	404,213	463,502	478,313	389,402
Clerk Perpetuation	38	15,654	896	14,796
Genesis Center Operating	47,530	678,621	706,485	19,666
Leased Properties - Gary Bldg Corp.	(582,047)	81,125	-	(500,922)
State Air Grant	21,902	30	11,193	10,739
Hazardous Material	5,969	-	-	5,969
Economic Development Bond Comm	26,396	42	11,600	14,838
Alcohol And Drug Treatment	56,674	-	-	56,674
New Birth Grant	22	-	-	22
Boy Scouts	500	-	500	-
Remote Encoding Center	369,539	167	188,240	181,466
Mayor Donations	-	16,150	14,603	1,547
Lakefront Development	1,107,939	-	25,498	1,082,441
Social Services	1,475	2,760	2,639	1,596
Special Events	751	22,052	8,049	14,754
City Council Donations	18,015	-	11,032	6,983
Special Project Donations	11,560	-	11,253	307

The notes to the financial statement are an integral part of this statement.

CITY OF GARY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012
(Continued)

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
Economic Development Trust	649,621	31,129	185,414	495,336
Community Development Loan Program	16,056	2	-	16,058
Police Donations	1,355	-	-	1,355
Weed And Seed	8,257	2,150	1,204	9,203
Welfare Excess	400,185	94	393,910	6,369
Human Relations	2,000	-	-	2,000
CMAQ Vehicles	7,750	66,869	69,258	5,361
Hope VI Pilot	56,206	76,494	30,235	102,465
Energy Efficient	4,633	517,480	6,136	515,977
HPRP	2,387	277,651	280,037	1
Filming Fees	10,300	4,800	10,000	5,100
CHRP	(75,553)	708,436	569,685	63,198
Neighborhood Stabilization Program	25,259	589,482	605,269	9,472
Lead Base Paint Hazzard Control Grant	6,941	628,339	558,812	76,468
Grand Trunk Corp	1,064,274	-	19,257	1,045,017
Redevelopment Bond	1,000,064	138,390	138,590	999,864
2007 Multi Purpose Revenue Bonds	86,111	120	62,964	23,267
2007 GO Judgment Funding Bonds	648,187	787,951	915,297	520,841
Baseball Maintenance	271	-	271	-
Grant/Buchanan Street Project	46,069	108,406	48,405	106,070
Park Construction	3,388	3,600	-	6,988
Mainwater Project	72,577	-	72,577	-
Clean Up/Beaulification	7,080	-	6,463	617
911 Equipment	1,295	-	801	494
Small Farms TIF District	322,803	-	222,692	100,111
Consolidated Area TIF District	377,021	830,927	411,416	796,532
Lakefront TIF District	5,056,355	918,364	69,397	5,905,322
TIF Replacement	133,371	-	60,300	73,071
Marquette Renovation	873,600	15,343,306	16,189,551	27,355
Lady Liberty Restoration	282	140	-	422
Guea Properties	2,642	-	-	2,642
Downtown Mall TIF District	69,996	-	2,471	67,525
Madison Avenue TIF District	559,170	283,455	265,931	576,694
Washington Manor TIF District	16,886	-	-	16,886
Consolidated Area Exp TIF District	10,974	94,557	3,090	102,441
Midwest Center TIF District	418,214	-	-	418,214
Lancaster Dusable TIF District	180,625	-	180,625	-
FEMA Grant - Fire Department	1,538	-	-	1,538
Joint Public Safety Training	18,806	200	-	19,006
Dalton Arms TIF District	49,125	267,140	268,020	48,245
County Market TIF District	470,360	344,829	474,650	340,539
SR912 No. 1 TIF District	15,757	-	-	15,757
SR912 No. 2 TIF District	172,009	-	-	172,009
Kenney's Ribs TIF District	5,904	127,915	70	133,749
Fire Capital Equipment	15,251	947	-	16,198
Major Moves Capital Projects	266,384	-	266,384	-
Gary City Center Allocation Area	35,497	-	-	35,497
Truck City Of Gary Allocation Area	362,631	163,293	409,716	116,208
Payroll	3,426	1,281	-	4,707
County Health	1,641	5,878	5,976	1,543
Empowerment Zone	6,073	489,713	495,747	39
Empowerment Zone Revolving	69,181	863,538	926,221	6,498
Microloan	1,928	4,059	664	5,323
Empowerment Zone Sba Microloan	75	42,097	41,511	661
Empowerment Zone Sba Loss Reserve	12,245	30,010	39,879	2,376
City Clerk - Civil Division	6,780	84,428	85,390	5,818
City Clerk - Criminal Division	968,886	1,484,100	1,366,953	1,086,033
Miscellaneous Refunds	13,101	3,114	-	16,215
Redevelopment Depository Trust	168,186	856	-	169,042
Withholdings	1,804,472	22,836,412	23,739,683	901,201
Supplemental Public Defender	37,364	7,655	-	45,019
LEDC - Empowerment Zone	350	14,107	14,200	257
Confiscated Property	219,003	70,587	54,610	234,980
Salary Fee Judicial	9,009	37,586	33,563	13,032
Gary Storm Water Management District (GSWMD)	229,935	2,828,226	1,386,329	1,671,832
GSDWM East Ridge Road Project	-	497,748	370,125	127,623
GSD Long Lake Water	92,855	-	36,222	56,633
GSD WWTP General Operating	3,065,098	31,367,919	31,479,457	2,953,560
GSD Bond And Interest	122,731	3,148,476	1,462,030	1,809,177
GSD Sewer Construction	27,131	4,030	-	31,161
GSD Sewer Operating	103,052	29,850	37,580	95,322
GSD Solid Waste Disposal	92,568	8,464,407	8,457,172	99,803
GSD Debt Service	1,814,442	3,113,298	1,433,730	3,494,010
GSD Grand Calumet Sedimentation	3,491,845	4,960	-	3,496,805
GSD Debt Service Reserve	1,661,343	181,386	-	1,842,729
GSD Equipment Replacement	1,864,120	3,467,034	473,779	4,857,375
GSD/WREP Economic Development	1,981	-	-	1,981
GSD Beach Sampling	7,915	20,865	-	28,780
GSD E Coli	88,260	-	-	88,260
Totals	\$ 55,781,041	\$ 242,637,107	\$ 246,248,614	\$ 52,169,534

The notes to the financial statement are an integral part of this statement.

CITY OF GARY
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, wastewater, storm water, trash, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

CITY OF GARY
NOTES TO FINANCIAL STATEMENT
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

CITY OF GARY
NOTES TO FINANCIAL STATEMENT
(Continued)

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

CITY OF GARY
NOTES TO FINANCIAL STATEMENT
(Continued)

State statutes authorize the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The City may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

CITY OF GARY
NOTES TO FINANCIAL STATEMENT
(Continued)

B. 1925 Police Officers' Pension Plan

Plan Description

The 1925 Police Officers' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

On Behalf Payments

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

C. 1937 Firefighters' Pension Plan

Plan Description

The 1937 Firefighters' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

On Behalf Payments

The 1937 Firefighters' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

D. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS) for all police officers and firefighters hired after April 30, 1977.

CITY OF GARY
NOTES TO FINANCIAL STATEMENT
(Continued)

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting, and requirements for contributions by employers and by employees. Covered employees may retire at age 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy

The contribution requirements of plan members and the City are established by the Board of Trustees of INPRS.

Note 7. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of the following reasons:

- a. The General Fund (#101) rolled over a deficit cash balance from 2011 to 2012 of \$4.9 million. Distress Unit Appeals Board approved the Civil City to receive the GSD levy for 2012. It was discovered during 2012, that there was no state mechanism to make the transfer except by legislation. Legislation was submitted in 2012, but not approved. As a result there was a \$2.4 million shortfall to the Civil City's General Fund attributed to the lack of the levy transfer. Legislation was approved in 2013 for the GSD levy, effective in 2014.
- b. Ambulance/EMS Nonreverting Fund (#224): In 2012, the City transferred all EMS related revenues and expenses to the Ambulance/EMS Nonreverting Fund. This effort was an alternative to outsourcing the services, as recommended by the PFM report. The fund, however, was not able to generate enough revenues to cover its expenses, and a deficit was created. Consequently, in 2013 the EMS Department was merged with the Fire Department in the General Fund and reorganized. For 2013, EMS revenues continue to be receipted to the Ambulance/EMS Nonreverting Fund, which has reduced the deficit from \$967,515 to \$ 388,510 as of July 2013.
- c. Leased Properties - Gary Bldg Corp. Fund (#281): When the fund's largest tenant moved from the property at 839 Broadway in 2004, there was not enough revenue generated to continue paying the bond, which resulted in a deficit. In 2007, the bond was refinanced and consequently paid off. The deficit which accumulated to \$1,020,778 has been reduced to \$450,000 with current lease payments.

CITY OF GARY
NOTES TO FINANCIAL STATEMENT
(Continued)

- d. Protective Services Grant I Fund (#202): In 2005, the City was required to reimburse the grantor. The reimbursement was charged to the grant fund, instead of the General Fund. The General Fund has not received sufficient revenues in the past few years due to property tax caps, poor collection rates, and the Majestic Star Casino negotiations, to transfer to fund 202 for the reimbursement.
- e. The Firefighter SAFER Grant (#812), Emergency Shelter (#222), Health and Human Services (#240), and Bioterrorism (#258) Funds are all grant reimbursement funds.

Note 8. Subsequent Events

Effective January 1, 2013, the City changed from being self-insured for employee health benefits to purchasing a healthcare plan from Cigna. The City expects to continue to process health care claims incurred while under the City's self-insurance plan during 2013.

Note 9. Contingent Liabilities and Lawsuits

The City has been named as a defendant in several pending lawsuits of which the outcome and the amount of potential damages has not been estimated.

During 2013, the Gary Sanitary District pursued a settlement agreement with its former contract operator, United Water, to resolve a contract dispute. A settlement agreement was reached in the amount of \$550,000 in which United Water claimed was due and owing to them under the contract. This is expected to be the extent of the Sanitary District's liability in this matter.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the City. It is presented as intended by the City.

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012

	General	Motor Vehicle Highway	Local Road And Street	Law Enforcement Continuing Education	Unsafe Building	Riverboat
Cash and investments - beginning	\$ (4,906,451)	\$ 72,237	\$ 523,625	\$ 168,529	\$ 158,899	\$ 1,708,910
Receipts:						
Taxes	26,262,068	-	-	-	-	-
Licenses and permits	1,007,136	-	-	-	-	-
Intergovernmental	2,537,259	2,397,999	976,105	-	-	21,444,936
Charges for services	370,915	-	-	91,124	-	-
Fines and forfeits	804,262	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	<u>34,737,022</u>	<u>5,443</u>	<u>153</u>	<u>932</u>	<u>4,437</u>	<u>1,780,515</u>
Total receipts	<u>65,718,662</u>	<u>2,403,442</u>	<u>976,258</u>	<u>92,056</u>	<u>4,437</u>	<u>23,225,451</u>
Disbursements:						
Personal services	36,734,374	734,980	7,679	-	-	-
Supplies	1,044,431	92,936	1,270,810	1,677	-	-
Other services and charges	6,558,087	1,435,171	112,782	94,660	-	15,011,994
Debt service - principal and interest	359,277	-	-	-	-	-
Capital outlay	20,276	-	-	3,287	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	<u>22,904,238</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,683,149</u>
Total disbursements	<u>67,620,683</u>	<u>2,263,087</u>	<u>1,391,271</u>	<u>99,624</u>	<u>-</u>	<u>23,695,143</u>
Excess (deficiency) of receipts over disbursements	<u>(1,902,021)</u>	<u>140,355</u>	<u>(415,013)</u>	<u>(7,568)</u>	<u>4,437</u>	<u>(469,692)</u>
Cash and investments - ending	<u>\$ (6,808,472)</u>	<u>\$ 212,592</u>	<u>\$ 108,612</u>	<u>\$ 160,961</u>	<u>\$ 163,336</u>	<u>\$ 1,239,218</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Parks And Recreation	Cumulative Capital Development	Cumulative Capital Improvement	Self-Insurance	Police Pension	Fire Pension
Cash and investments - beginning	\$ 170,739	\$ 44,762	\$ 58,756	\$ (333,253)	\$ 2,058,144	\$ 2,748,837
Receipts:						
Taxes	490,596	54,957	-	-	30,465	37,585
Licenses and permits	-	-	-	-	-	-
Intergovernmental	35,243	4,015	212,901	-	4,290,539	4,679,102
Charges for services	12,058	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	618,267	300,000	398	10,515,848	12,789	2,112
Total receipts	<u>1,156,164</u>	<u>358,972</u>	<u>213,299</u>	<u>10,515,848</u>	<u>4,333,793</u>	<u>4,718,799</u>
Disbursements:						
Personal services	571,292	-	-	9,911,009	-	-
Supplies	15,897	-	-	-	-	386
Other services and charges	162,077	63,029	48,123	-	5,093,319	4,748,676
Debt service - principal and interest	400,000	-	-	-	-	-
Capital outlay	-	10,338	194,060	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	175,000	-	-	-	-	-
Total disbursements	<u>1,324,266</u>	<u>73,367</u>	<u>242,183</u>	<u>9,911,009</u>	<u>5,093,319</u>	<u>4,749,062</u>
Excess (deficiency) of receipts over disbursements	<u>(168,102)</u>	<u>285,605</u>	<u>(28,884)</u>	<u>604,839</u>	<u>(759,526)</u>	<u>(30,263)</u>
Cash and investments - ending	<u>\$ 2,637</u>	<u>\$ 330,367</u>	<u>\$ 29,872</u>	<u>\$ 271,586</u>	<u>\$ 1,298,618</u>	<u>\$ 2,718,574</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	J-Pit/Landfill Management	Geminus Grant	FireFighter SAFER Grant	Note Reserve	Bond Revenue	Metro Center
Cash and investments - beginning	\$ 39,197	\$ (683)	\$ (788,954)	\$ 1,354,737	\$ 20,514,277	\$ 6,854
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	20,000	2,139,631	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	45,978	-	-	645,760	1,678	72,350
Total receipts	45,978	20,000	2,139,631	645,760	1,678	72,350
Disbursements:						
Personal services	-	12,744	1,625,531	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	2,697	-	5,058	-	1,086,743	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	8,257,261	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	77,270
Total disbursements	2,697	12,744	1,630,589	-	9,344,004	77,270
Excess (deficiency) of receipts over disbursements	43,281	7,256	509,042	645,760	(9,342,326)	(4,920)
Cash and investments - ending	\$ 82,478	\$ 6,573	\$ (279,912)	\$ 2,000,497	\$ 11,171,951	\$ 1,934

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Regional Development Authority	ARRA Public Works	2012 Genesis Center Renovation	Lets Move Project	Fire Department Equipment	Department of Commerce
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	143,475	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	5,250,000	-	4,500,000	10,000	7,200	132,000
Total receipts	<u>5,250,000</u>	<u>143,475</u>	<u>4,500,000</u>	<u>10,000</u>	<u>7,200</u>	<u>132,000</u>
Disbursements:						
Personal services	-	-	-	-	-	120,414
Supplies	-	-	-	6,084	1,101	-
Other services and charges	-	143,474	373,203	250	4,263	-
Debt service - principal and interest	3,500,000	-	-	-	-	-
Capital outlay	-	-	2,203,280	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	1,750,000	-	450,000	-	-	-
Total disbursements	<u>5,250,000</u>	<u>143,474</u>	<u>3,026,483</u>	<u>6,334</u>	<u>5,364</u>	<u>120,414</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>1</u>	<u>1,473,517</u>	<u>3,666</u>	<u>1,836</u>	<u>11,586</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 1,473,517</u>	<u>\$ 3,666</u>	<u>\$ 1,836</u>	<u>\$ 11,586</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Cops Technology	Note Repayment	Narcotics Vice	Health Radon Gas	Gun Buy Back	Law Non-reverting
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	169,835	-	9,180	4,011	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	2,585,804	-	-	3,500	14,989
Total receipts	<u>169,835</u>	<u>2,585,804</u>	<u>9,180</u>	<u>4,011</u>	<u>3,500</u>	<u>14,989</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	2,585,804	-	-	-	-
Capital outlay	86,886	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	<u>86,886</u>	<u>2,585,804</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>82,949</u>	<u>-</u>	<u>9,180</u>	<u>4,011</u>	<u>3,500</u>	<u>14,989</u>
Cash and investments - ending	<u>\$ 82,949</u>	<u>\$ -</u>	<u>\$ 9,180</u>	<u>\$ 4,011</u>	<u>\$ 3,500</u>	<u>\$ 14,989</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Fair Housing	TIF Bond Reserve	2012 Note Payment	Casino Capital	WCI/UCI Benefit	CDBG-R Street Improvement
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	11,205	-	-	-	-	3,608
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	450,000	29,418	52,963	1,081,577	-
Total receipts	<u>11,205</u>	<u>450,000</u>	<u>29,418</u>	<u>52,963</u>	<u>1,081,577</u>	<u>3,608</u>
Disbursements:						
Personal services	-	-	-	-	1,081,577	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	30,000	-	3,608
Debt service - principal and interest	-	-	29,418	-	-	-
Capital outlay	-	-	-	22,963	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>29,418</u>	<u>52,963</u>	<u>1,081,577</u>	<u>3,608</u>
Excess (deficiency) of receipts over disbursements	<u>11,205</u>	<u>450,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ 11,205</u>	<u>\$ 450,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Ambulance/EMS Nonreverting	Protective Services Grant I	Protective Services Grant II	Equal Opportunity Commission Hr	Tourism Project	Youth Services Bureau
Cash and investments - beginning	\$ 30,468	\$ (1,033,929)	\$ 317,453	\$ 10,415	\$ 82,201	\$ 237,813
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	39,000	-	78,786
Charges for services	1,420,845	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	7,529	-	45,174	-	-	582
Total receipts	<u>1,428,374</u>	<u>-</u>	<u>45,174</u>	<u>39,000</u>	<u>-</u>	<u>79,368</u>
Disbursements:						
Personal services	2,111,505	-	-	44,364	-	29,327
Supplies	30,905	-	42,724	1,294	-	53,064
Other services and charges	128,606	-	172,920	1,721	-	6,551
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	9,880	-	91,896	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	84	-	-	-	32,210	-
Total disbursements	<u>2,280,980</u>	<u>-</u>	<u>307,540</u>	<u>47,379</u>	<u>32,210</u>	<u>88,942</u>
Excess (deficiency) of receipts over disbursements	<u>(852,606)</u>	<u>-</u>	<u>(262,366)</u>	<u>(8,379)</u>	<u>(32,210)</u>	<u>(9,574)</u>
Cash and investments - ending	<u>\$ (822,138)</u>	<u>\$ (1,033,929)</u>	<u>\$ 55,087</u>	<u>\$ 2,036</u>	<u>\$ 49,991</u>	<u>\$ 228,239</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Home Program	Emergency Shelter Grant	Brownfield	Healthy Families	Marquette Park	Gleason Golf Course
Cash and investments - beginning	\$ 6,180	\$ 1,162	\$ 161,209	\$ 17,278	\$ 2,131	\$ 2,430
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	597,103	24,535	289,823	-	-	-
Charges for services	-	-	-	-	99,595	129,748
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	-	38	139,777	95,197
Total receipts	<u>597,103</u>	<u>24,535</u>	<u>289,823</u>	<u>38</u>	<u>239,372</u>	<u>224,945</u>
Disbursements:						
Personal services	60,920	6,580	-	-	40,085	68,293
Supplies	-	-	250	-	6,134	19,490
Other services and charges	535,256	19,009	189,992	4,540	51,542	49,796
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	139,759	80,095
Total disbursements	<u>596,176</u>	<u>25,589</u>	<u>190,242</u>	<u>4,540</u>	<u>237,520</u>	<u>217,674</u>
Excess (deficiency) of receipts over disbursements	<u>927</u>	<u>(1,054)</u>	<u>99,581</u>	<u>(4,502)</u>	<u>1,852</u>	<u>7,271</u>
Cash and investments - ending	<u>\$ 7,107</u>	<u>\$ 108</u>	<u>\$ 260,790</u>	<u>\$ 12,776</u>	<u>\$ 3,983</u>	<u>\$ 9,701</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Emergency Shelter	Comprehensive Community Program	Landfill Closure	Landfill Trust	Solid Waste Recycling Project	Environmental Management
Cash and investments - beginning	\$ (421,344)	\$ 79,657	\$ 120,957	\$ 1,139,046	\$ 242,139	\$ (7,866)
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	418,536	-	-	-	-	57,214
Charges for services	2,865	40,177	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	4,000	33,879	81,916	676,431	-
Total receipts	<u>421,401</u>	<u>44,177</u>	<u>33,879</u>	<u>81,916</u>	<u>676,431</u>	<u>57,214</u>
Disbursements:						
Personal services	415,610	-	-	-	518,470	-
Supplies	4,158	13,637	-	-	8,296	-
Other services and charges	45,071	51,871	53,793	-	48,432	35,762
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	94,185	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	<u>464,839</u>	<u>65,508</u>	<u>53,793</u>	<u>-</u>	<u>669,383</u>	<u>35,762</u>
Excess (deficiency) of receipts over disbursements	<u>(43,438)</u>	<u>(21,331)</u>	<u>(19,914)</u>	<u>81,916</u>	<u>7,048</u>	<u>21,452</u>
Cash and investments - ending	<u>\$ (464,782)</u>	<u>\$ 58,326</u>	<u>\$ 101,043</u>	<u>\$ 1,220,962</u>	<u>\$ 249,187</u>	<u>\$ 13,586</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Health And Human Services	Supplemental Adult Probation Svcs	Gary Health Department Rental	Park Nonreverting	Vehicle Auction	Bioterrorism
Cash and investments - beginning	\$ (293,041)	\$ 185,884	\$ 5,545	\$ 18,127	\$ 32,085	\$ (8,678)
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	563,791	-	-	-	-	38,388
Charges for services	76,205	87,775	4,420	84,943	-	-
Fines and forfeits	-	-	-	5,030	-	-
Utility fees	-	-	-	-	-	-
Other receipts	397	-	28	460	93,343	-
Total receipts	<u>640,393</u>	<u>87,775</u>	<u>4,448</u>	<u>90,433</u>	<u>93,343</u>	<u>38,388</u>
Disbursements:						
Personal services	603,729	151,506	-	96,744	6,718	14,533
Supplies	12,007	-	1,000	4,342	28,716	4,271
Other services and charges	183,526	-	777	3,112	43,046	19,584
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	<u>799,262</u>	<u>151,506</u>	<u>1,777</u>	<u>104,198</u>	<u>78,480</u>	<u>38,388</u>
Excess (deficiency) of receipts over disbursements	<u>(158,869)</u>	<u>(63,731)</u>	<u>2,671</u>	<u>(13,765)</u>	<u>14,863</u>	<u>-</u>
Cash and investments - ending	<u>\$ (451,910)</u>	<u>\$ 122,153</u>	<u>\$ 8,216</u>	<u>\$ 4,362</u>	<u>\$ 46,948</u>	<u>\$ (8,678)</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Community Development Block Grant	Redevelopment Operating	Summer Jobs Training Program	Fair Housing Project	Genesis Civic Center	Media
Cash and investments - beginning	\$ 152,856	\$ 50,111	\$ -	\$ 59,524	\$ 36,680	\$ 404,213
Receipts:						
Taxes	-	96,333	-	-	346	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	3,171,239	7,317	-	43,980	-	-
Charges for services	-	10,583	-	-	-	-
Fines and forfeits	-	-	-	-	-	463,288
Utility fees	-	-	-	-	-	-
Other receipts	51,329	115	30,340	16,000	170,463	214
Total receipts	<u>3,222,568</u>	<u>114,348</u>	<u>30,340</u>	<u>59,980</u>	<u>170,809</u>	<u>463,502</u>
Disbursements:						
Personal services	1,227,700	109,382	21,564	65,683	177,666	273,760
Supplies	17,173	634	-	-	29,815	9,145
Other services and charges	1,906,249	1,524	-	2,273	-	140,628
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	50,600	-	-	-	-	54,780
Utility operating expenses	-	-	-	-	-	-
Other disbursements	14,000	-	-	-	-	-
Total disbursements	<u>3,215,722</u>	<u>111,540</u>	<u>21,564</u>	<u>67,956</u>	<u>207,481</u>	<u>478,313</u>
Excess (deficiency) of receipts over disbursements	<u>6,846</u>	<u>2,808</u>	<u>8,776</u>	<u>(7,976)</u>	<u>(36,672)</u>	<u>(14,811)</u>
Cash and investments - ending	<u>\$ 159,702</u>	<u>\$ 52,919</u>	<u>\$ 8,776</u>	<u>\$ 51,548</u>	<u>\$ 8</u>	<u>\$ 389,402</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Clerk Perpetuation	Genesis Center Operating	Leased Properties - Gary Bldg Corp.	State Air Grant	Hazardous Material	Economic Development Bond Comm
Cash and investments - beginning	\$ 38	\$ 47,530	\$ (582,047)	\$ 21,902	\$ 5,969	\$ 26,396
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	15,654	-	81,125	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	678,621	-	30	-	42
Total receipts	<u>15,654</u>	<u>678,621</u>	<u>81,125</u>	<u>30</u>	<u>-</u>	<u>42</u>
Disbursements:						
Personal services	896	328,545	-	10,693	-	-
Supplies	-	171,399	-	-	-	-
Other services and charges	-	156,138	-	500	-	11,600
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	50,403	-	-	-	-
Total disbursements	<u>896</u>	<u>706,485</u>	<u>-</u>	<u>11,193</u>	<u>-</u>	<u>11,600</u>
Excess (deficiency) of receipts over disbursements	<u>14,758</u>	<u>(27,864)</u>	<u>81,125</u>	<u>(11,163)</u>	<u>-</u>	<u>(11,558)</u>
Cash and investments - ending	<u>\$ 14,796</u>	<u>\$ 19,666</u>	<u>\$ (500,922)</u>	<u>\$ 10,739</u>	<u>\$ 5,969</u>	<u>\$ 14,838</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Alcohol And Drug Treatment	New Birth Grant	Boy Scouts	Remote Encoding Center	Mayor Donations	Lakefront Development
Cash and investments - beginning	\$ 56,674	\$ 22	\$ 500	\$ 369,539	\$ -	\$ 1,107,939
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	-	167	16,150	-
Total receipts	-	-	-	167	16,150	-
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	500	188,240	14,603	25,498
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	-	-	500	188,240	14,603	25,498
Excess (deficiency) of receipts over disbursements	-	-	(500)	(188,073)	1,547	(25,498)
Cash and investments - ending	<u>\$ 56,674</u>	<u>\$ 22</u>	<u>\$ -</u>	<u>\$ 181,466</u>	<u>\$ 1,547</u>	<u>\$ 1,082,441</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Social Services	Special Events	City Council Donations	Special Project Donations	Economic Development Trust	Community Development Loan Program
Cash and investments - beginning	\$ 1,475	\$ 751	\$ 18,015	\$ 11,560	\$ 649,621	\$ 16,056
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	445	-
Utility fees	-	-	-	-	-	-
Other receipts	2,760	22,052	-	-	30,684	2
Total receipts	<u>2,760</u>	<u>22,052</u>	<u>-</u>	<u>-</u>	<u>31,129</u>	<u>2</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	2,639	6,050	11,032	11,253	185,414	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	1,999	-	-	-	-
Total disbursements	<u>2,639</u>	<u>8,049</u>	<u>11,032</u>	<u>11,253</u>	<u>185,414</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>121</u>	<u>14,003</u>	<u>(11,032)</u>	<u>(11,253)</u>	<u>(154,285)</u>	<u>2</u>
Cash and investments - ending	<u>\$ 1,596</u>	<u>\$ 14,754</u>	<u>\$ 6,983</u>	<u>\$ 307</u>	<u>\$ 495,336</u>	<u>\$ 16,058</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Police Donations	Weed And Seed	Welfare Excess	Human Relations	CMAQ Vehicles	Hope VI Pilot
Cash and investments - beginning	\$ 1,355	\$ 8,257	\$ 400,185	\$ 2,000	\$ 7,750	\$ 56,206
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	66,869	76,274
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	2,150	94	-	-	220
Total receipts	-	2,150	94	-	66,869	76,494
Disbursements:						
Personal services	-	-	393,700	-	-	-
Supplies	-	1,204	-	-	61,607	-
Other services and charges	-	-	-	-	7,651	30,235
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	210	-	-	-
Total disbursements	-	1,204	393,910	-	69,258	30,235
Excess (deficiency) of receipts over disbursements	-	946	(393,816)	-	(2,389)	46,259
Cash and investments - ending	\$ 1,355	\$ 9,203	\$ 6,369	\$ 2,000	\$ 5,361	\$ 102,465

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Energy Efficient	HPRP	Filming Fees	CHRP	Neighborhood Stabilization Program	Lead Base Paint Hazzard Control Grant
Cash and investments - beginning	\$ 4,633	\$ 2,387	\$ 10,300	\$ (75,553)	\$ 25,259	\$ 6,941
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	517,480	277,651	-	708,436	589,482	578,315
Charges for services	-	-	4,800	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	-	-	-	50,024
Total receipts	<u>517,480</u>	<u>277,651</u>	<u>4,800</u>	<u>708,436</u>	<u>589,482</u>	<u>628,339</u>
Disbursements:						
Personal services	-	23,477	-	569,685	103,120	29,205
Supplies	-	6,135	-	-	-	1,997
Other services and charges	6,136	250,425	10,000	-	502,149	521,487
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	6,123
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	<u>6,136</u>	<u>280,037</u>	<u>10,000</u>	<u>569,685</u>	<u>605,269</u>	<u>558,812</u>
Excess (deficiency) of receipts over disbursements	<u>511,344</u>	<u>(2,386)</u>	<u>(5,200)</u>	<u>138,751</u>	<u>(15,787)</u>	<u>69,527</u>
Cash and investments - ending	<u>\$ 515,977</u>	<u>\$ 1</u>	<u>\$ 5,100</u>	<u>\$ 63,198</u>	<u>\$ 9,472</u>	<u>\$ 76,468</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Grand Trunk Corp	Redevelopment Bond	2007 Multi Purpose Revenue Bonds	2007 GO Judgment Funding Bonds	Baseball Maintenance	Grant/Buchanan Street Project
Cash and investments - beginning	\$ 1,064,274	\$ 1,000,064	\$ 86,111	\$ 648,187	\$ 271	\$ 46,069
Receipts:						
Taxes	-	-	-	759,142	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	28,676	-	-
Charges for services	-	-	-	131	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	138,390	120	2	-	108,406
Total receipts	-	138,390	120	787,951	-	108,406
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	19,257	137,761	62,964	500	271	48,405
Debt service - principal and interest	-	-	-	882,797	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	829	-	32,000	-	-
Total disbursements	19,257	138,590	62,964	915,297	271	48,405
Excess (deficiency) of receipts over disbursements	(19,257)	(200)	(62,844)	(127,346)	(271)	60,001
Cash and investments - ending	\$ 1,045,017	\$ 999,864	\$ 23,267	\$ 520,841	\$ -	\$ 106,070

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Park Construction	Mainwater Project	Clean Up/Beautification	911 Equipment	Small Farms TIF District	Consolidated Area TIF District
Cash and investments - beginning	\$ 3,388	\$ 72,577	\$ 7,080	\$ 1,295	\$ 322,803	\$ 377,021
Receipts:						
Taxes	-	-	-	-	-	554,882
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	3,600	-	-	-	-	276,045
Total receipts	3,600	-	-	-	-	830,927
Disbursements:						
Personal services	-	-	6,463	-	-	-
Supplies	-	-	-	801	-	-
Other services and charges	-	-	-	-	22,692	381,998
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	72,577	-	-	200,000	29,418
Total disbursements	-	72,577	6,463	801	222,692	411,416
Excess (deficiency) of receipts over disbursements	3,600	(72,577)	(6,463)	(801)	(222,692)	419,511
Cash and investments - ending	\$ 6,988	\$ -	\$ 617	\$ 494	\$ 100,111	\$ 796,532

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Lakefront TIF District	TIF Replacement	Marquette Renovation	Lady Liberty Restoration	Guea Properties	Downtown Mall TIF District
Cash and investments - beginning	\$ 5,056,355	\$ 133,371	\$ 873,600	\$ 282	\$ 2,642	\$ 69,996
Receipts:						
Taxes	-	-	15,152,022	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	915,843	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	2,521	-	191,284	140	-	-
Total receipts	918,364	-	15,343,306	140	-	-
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	60,300	2,825,390	-	-	2,471
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	13,200,546	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	69,397	-	163,615	-	-	-
Total disbursements	69,397	60,300	16,189,551	-	-	2,471
Excess (deficiency) of receipts over disbursements	848,967	(60,300)	(846,245)	140	-	(2,471)
Cash and investments - ending	\$ 5,905,322	\$ 73,071	\$ 27,355	\$ 422	\$ 2,642	\$ 67,525

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Madison Avenue TIF District	Washington Manor TIF District	Consolidated Area Exp TIF District	Midwest Center TIF District	Lancaster Dusable TIF District	FEMA Grant - Fire Department
Cash and investments - beginning	\$ 559,170	\$ 16,886	\$ 10,974	\$ 418,214	\$ 180,625	\$ 1,538
Receipts:						
Taxes	283,455	-	94,557	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-
Total receipts	<u>283,455</u>	<u>-</u>	<u>94,557</u>	<u>-</u>	<u>-</u>	<u>-</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	420	-	3,090	-	840	-
Debt service - principal and interest	265,511	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	179,785	-
Total disbursements	<u>265,931</u>	<u>-</u>	<u>3,090</u>	<u>-</u>	<u>180,625</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>17,524</u>	<u>-</u>	<u>91,467</u>	<u>-</u>	<u>(180,625)</u>	<u>-</u>
Cash and investments - ending	<u>\$ 576,694</u>	<u>\$ 16,886</u>	<u>\$ 102,441</u>	<u>\$ 418,214</u>	<u>\$ -</u>	<u>\$ 1,538</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Joint Public Safety Training	Dalton Arms TIF District	County Market TIF District	SR912 No. 1 TIF District	SR912 No. 2 TIF District	Kenney's Ribs TIF District
Cash and investments - beginning	\$ 18,806	\$ 49,125	\$ 470,360	\$ 15,757	\$ 172,009	\$ 5,904
Receipts:						
Taxes	-	49,980	344,829	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	127,915
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	200	217,160	-	-	-	-
Total receipts	<u>200</u>	<u>267,140</u>	<u>344,829</u>	<u>-</u>	<u>-</u>	<u>127,915</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	3,860	6,766	-	-	70
Debt service - principal and interest	-	264,160	467,884	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	<u>-</u>	<u>268,020</u>	<u>474,650</u>	<u>-</u>	<u>-</u>	<u>70</u>
Excess (deficiency) of receipts over disbursements	<u>200</u>	<u>(880)</u>	<u>(129,821)</u>	<u>-</u>	<u>-</u>	<u>127,845</u>
Cash and investments - ending	<u>\$ 19,006</u>	<u>\$ 48,245</u>	<u>\$ 340,539</u>	<u>\$ 15,757</u>	<u>\$ 172,009</u>	<u>\$ 133,749</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Fire Capital Equipment	Major Moves Capital Projects	Gary City Center Allocation Area	Truck City Of Gary Allocation Area	Payroll	County Health
Cash and investments - beginning	\$ 15,251	\$ 266,384	\$ 35,497	\$ 362,631	\$ 3,426	\$ 1,641
Receipts:						
Taxes	-	-	-	163,293	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	947	-	-	-	1,281	5,878
Total receipts	947	-	-	163,293	1,281	5,878
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	266,384	-	4,176	-	5,976
Debt service - principal and interest	-	-	-	129,495	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	276,045	-	-
Total disbursements	-	266,384	-	409,716	-	5,976
Excess (deficiency) of receipts over disbursements	947	(266,384)	-	(246,423)	1,281	(98)
Cash and investments - ending	\$ 16,198	\$ -	\$ 35,497	\$ 116,208	\$ 4,707	\$ 1,543

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Empowerment Zone	Empowerment Zone Revolving	Microloan	Empowerment Zone Sba Microloan	Empowerment Zone Sba Loss Reserve	City Clerk - Civil Division
Cash and investments - beginning	\$ 6,073	\$ 69,181	\$ 1,928	\$ 75	\$ 12,245	\$ 6,780
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	481	-	1,270	-	-
Utility fees	-	-	-	-	-	-
Other receipts	489,713	863,057	4,059	40,827	30,010	84,428
Total receipts	489,713	863,538	4,059	42,097	30,010	84,428
Disbursements:						
Personal services	186,732	-	-	-	-	-
Supplies	1,409	-	-	-	-	-
Other services and charges	162,582	344,079	-	36,281	4,400	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	145,024	582,142	664	5,230	35,479	85,390
Total disbursements	495,747	926,221	664	41,511	39,879	85,390
Excess (deficiency) of receipts over disbursements	(6,034)	(62,683)	3,395	586	(9,869)	(962)
Cash and investments - ending	\$ 39	\$ 6,498	\$ 5,323	\$ 661	\$ 2,376	\$ 5,818

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	City Clerk - Criminal Division	Miscellaneous Refunds	Redevelopment Depository Trust	Withholdings	Supplemental Public Defender	LEDC - Empowerment Zone
Cash and investments - beginning	\$ 968,886	\$ 13,101	\$ 168,186	\$ 1,804,472	\$ 37,364	\$ 350
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	7,655	510
Utility fees	-	-	-	-	-	-
Other receipts	<u>1,484,100</u>	<u>3,114</u>	<u>856</u>	<u>22,836,412</u>	<u>-</u>	<u>13,597</u>
Total receipts	<u>1,484,100</u>	<u>3,114</u>	<u>856</u>	<u>22,836,412</u>	<u>7,655</u>	<u>14,107</u>
Disbursements:						
Personal services	-	-	-	6,463,474	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	<u>1,366,953</u>	<u>-</u>	<u>-</u>	<u>17,276,209</u>	<u>-</u>	<u>14,200</u>
Total disbursements	<u>1,366,953</u>	<u>-</u>	<u>-</u>	<u>23,739,683</u>	<u>-</u>	<u>14,200</u>
Excess (deficiency) of receipts over disbursements	<u>117,147</u>	<u>3,114</u>	<u>856</u>	<u>(903,271)</u>	<u>7,655</u>	<u>(93)</u>
Cash and investments - ending	<u>\$ 1,086,033</u>	<u>\$ 16,215</u>	<u>\$ 169,042</u>	<u>\$ 901,201</u>	<u>\$ 45,019</u>	<u>\$ 257</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Confiscated Property	Salary Fee Judicial	Gary Storm Water Management District (GSWMD)	GSDWM East Ridge Road Project	GSD Long Lake Water	GSD WWTP General Operating
Cash and investments - beginning	\$ 219,003	\$ 9,009	\$ 229,935	\$ -	\$ 92,855	\$ 3,065,098
Receipts:						
Taxes	-	-	2,366,391	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	22,652	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	23,642	-	-	29,113,334
Other receipts	70,587	37,586	415,541	497,748	-	2,254,585
Total receipts	70,587	37,586	2,828,226	497,748	-	31,367,919
Disbursements:						
Personal services	-	33,563	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	54,610	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	337,406	-	-	392,542
Utility operating expenses	-	-	548,923	370,125	-	15,674,755
Other disbursements	-	-	500,000	-	36,222	15,412,160
Total disbursements	54,610	33,563	1,386,329	370,125	36,222	31,479,457
Excess (deficiency) of receipts over disbursements	15,977	4,023	1,441,897	127,623	(36,222)	(111,538)
Cash and investments - ending	\$ 234,980	\$ 13,032	\$ 1,671,832	\$ 127,623	\$ 56,633	\$ 2,953,560

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	GSD Bond And Interest	GSD Sewer Construction	GSD Sewer Operating	GSD Solid Waste Disposal	GSD Debt Service	GSD Grand Calumet Sedimentation
Cash and investments - beginning	\$ 122,731	\$ 27,131	\$ 103,052	\$ 92,568	\$ 1,814,442	\$ 3,491,845
Receipts:						
Taxes	-	-	29,811	88,402	1,571,292	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	3,973	-	-	153,813	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	3,148,476	57	39	8,376,005	1,388,193	4,960
Total receipts	<u>3,148,476</u>	<u>4,030</u>	<u>29,850</u>	<u>8,464,407</u>	<u>3,113,298</u>	<u>4,960</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	37,580	6,877,172	600	-
Other disbursements	1,462,030	-	-	1,580,000	1,433,130	-
Total disbursements	<u>1,462,030</u>	<u>-</u>	<u>37,580</u>	<u>8,457,172</u>	<u>1,433,730</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>1,686,446</u>	<u>4,030</u>	<u>(7,730)</u>	<u>7,235</u>	<u>1,679,568</u>	<u>4,960</u>
Cash and investments - ending	<u>\$ 1,809,177</u>	<u>\$ 31,161</u>	<u>\$ 95,322</u>	<u>\$ 99,803</u>	<u>\$ 3,494,010</u>	<u>\$ 3,496,805</u>

CITY OF GARY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	GSD Debt Service Reserve	GSD Equipment Replacement	GSD/WREP Economic Development	GSD Beach Sampling	GSD E Coli	Totals
Cash and investments - beginning	\$ 1,661,343	\$ 1,864,120	\$ 1,981	\$ 7,915	\$ 88,260	\$ 55,781,041
Receipts:						
Taxes	-	-	-	-	-	48,430,406
Licenses and permits	-	-	-	-	-	1,007,136
Intergovernmental	-	-	-	-	-	48,476,135
Charges for services	-	-	-	-	-	2,532,963
Fines and forfeits	-	-	-	-	-	1,282,941
Utility fees	-	-	-	-	-	29,136,976
Other receipts	<u>181,386</u>	<u>3,467,034</u>	<u>-</u>	<u>20,865</u>	<u>-</u>	<u>111,770,550</u>
Total receipts	<u>181,386</u>	<u>3,467,034</u>	<u>-</u>	<u>20,865</u>	<u>-</u>	<u>242,637,107</u>
Disbursements:						
Personal services	-	-	-	-	-	64,993,292
Supplies	-	-	-	-	-	2,964,929
Other services and charges	-	-	-	-	-	45,069,888
Debt service - principal and interest	-	-	-	-	-	8,884,346
Capital outlay	-	398,118	-	-	-	25,434,427
Utility operating expenses	-	75,661	-	-	-	23,584,816
Other disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,316,916</u>
Total disbursements	<u>-</u>	<u>473,779</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>246,248,614</u>
Excess (deficiency) of receipts over disbursements	<u>181,386</u>	<u>2,993,255</u>	<u>-</u>	<u>20,865</u>	<u>-</u>	<u>(3,611,507)</u>
Cash and investments - ending	<u>\$ 1,842,729</u>	<u>\$ 4,857,375</u>	<u>\$ 1,981</u>	<u>\$ 28,780</u>	<u>\$ 88,260</u>	<u>\$ 52,169,534</u>

CITY OF GARY
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2012

Government or Enterprise	Accounts Payable	Accounts Receivable
GSD	\$ -	\$ 10,521,266
Totals	\$ -	\$ 10,521,266

CITY OF GARY
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Fifth Third	(3) Ten Ton Trucks Salt Spreaders Excavators & Accessories Lease 3	\$ 68,880	06-09-06	12-09-12
Fifth Third	Fire Turck	192,282	12-01-12	01-01-20
GE Government Finance Inc	Recycling Trucks	<u>78,915</u>	01-06-06	02-02-12
Total governmental activities		<u>340,077</u>		
Total of annual lease payments		<u>\$ 340,077</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:			
General obligation bonds	City of Gary GO Judgement Funding Bonds Series 2007	\$ 2,495,000	\$ 888,891
Revenue bonds	Tax Increment Revenue Bond Series 2012	4,500,000	444,575
Notes and loans payable	General Revenue Notes of 2010	5,249,762	2,411,393
Lines of credit	Broad Ridge Partners LP	<u>314,633</u>	<u>314,633</u>
Total governmental activities		<u>12,559,395</u>	<u>4,059,492</u>
GSD:			
General obligation bonds	Special Taxing District Refunding Bonds Series 2003	1,370,000	1,438,500
General obligation bonds	1993 SRF Bonds	1,094,000	1,137,760
Revenue bonds	2011 Revenue Bonds	21,705,000	1,279,860
Revenue bonds	2000 SRF Revenue Bonds	<u>12,132,014</u>	<u>1,661,856</u>
Total GSD		<u>36,301,014</u>	<u>5,517,976</u>
Totals		<u>\$ 48,860,409</u>	<u>\$ 9,577,468</u>

CITY OF GARY
SCHEDULE OF CAPITAL ASSETS
December 31, 2012

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	Ending Balance
Governmental activities:	
Land	\$ 22,362,555
Infrastructure	140,982,325
Buildings	146,598,458
Improvements other than buildings	12,104,575
Machinery, equipment, and vehicles	44,353,263
Construction in progress	22,041,186
Total governmental activities	388,442,362
Storm Water Management District:	
Land	320,084
Infrastructure	10,673,869
Buildings	4,003,564
Machinery, equipment, and vehicles	1,180,077
Construction in progress	995,587
Total Storm Water Management District	17,173,181
GSD:	
Land	1,508,598
Infrastructure	193,360,421
Buildings	104,713,847
Machinery, equipment, and vehicles	62,975,488
Construction in progress	6,964,451
Books and other	3,505,630
Total GSD	373,028,435
Total capital assets	\$ 778,643,978

CITY OF GARY
OTHER REPORT

The annual report presented herein was prepared in addition to the other official report prepared for the individual City office listed below:

City Clerk

CITY OF GARY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER BANK RECONCILEMENTS

We noted deficiencies in the internal control system of the City related to financial transactions. We believe the following deficiencies constitute material weaknesses:

Bank reconcilements were completed on a consistent basis. However, City officials failed to properly document that the reconcilements had been reviewed by the appropriate level of management to ensure that identified reconciling items were appropriate, supportable and recorded timely.

We noted several reconciling items accumulated during the year that were included in the bank reconcilements for an extended period of time. The majority of these reconciling items were recorded to the ledgers in December 2012. Some of the material items noted on the City's November 2012 reconciliation for the City's Bank 10, which includes approximately 100 of the City's special revenue, capital project and agency funds, were:

1. Deposits from Accumed, for collections for ambulance services, dating back to February 2012, totaled \$123,097. The deposits were not recorded to the Ambulance/EMS Nonreverting Fund until December 2012.
2. Deposits for gaming admission tax, ambulance reimbursement, and grant drawdowns received from the Auditor of State, dating back to January 2012, totaled \$531,528. The gaming admission tax deposits were not recorded to the Riverboat Fund until December 2012. The ambulance reimbursement deposits were not recorded to the Ambulance/EMS Nonreverting Fund until December 2012. The grant drawdown deposits were not recorded to the Emergency Shelter Fund, GSDWM East Ridge Road Project, and Health and Human Services Funds until December 2012.
3. The February 2012 bond payment of \$132,382 to Huntington Bank was not recorded to the Dalton Arms TIF District Fund until December 2012.
4. On June 29, 2012, the City recorded \$1,253,721 of Tax Increment Financing (TIF) tax collections from the Lake County Auditor to several of the City's TIF Funds. However, the City only received \$888,193 due to a tax refund withheld from the Lancaster Apartments - Lancaster Dusable TIF District Fund tax collections. This resulted in a \$365,528 reconciling item on the bank reconcilements from July until December 2012. On February 27, 2013, the City recorded negative receipts to the other TIF funds as of December 31, 2012, to adjust for the overstatement of the receipts.
5. In June 2012, a \$908,703 entry was recorded to reclassify funds from the cash balance to the investment balance in the Lakefront TIF District Fund. However, at that same time, a receipt was posted to the Lakefront TIF District Fund as an internal transfer. This overstated the cash balance of the Lakefront TIF District Fund until a correcting entry recorded a disbursement to the fund as of December 31, 2012. The \$908,703 overstatement was reflected as a reconciling item on the bank reconciliation from June until December 2012.
6. A \$131,778 wire transfer for a TIF payment received on July 13, 2012, from Sterling Management Group was not recorded in the Dalton Arms TIF District Fund in the City's ledger until December 31, 2012.

CITY OF GARY
 AUDIT RESULTS AND COMMENTS
 (Continued)

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

OVERDRAWN CASH BALANCES

The financial statement presented in this report included the funds with overdrawn cash balances at December 31, 2012. Cash balances of some of the City's funds are overdrawn due to grant funds operating on the reimbursement basis. Reimbursement grants require the City to expend funds and subsequently request reimbursement. Only those City funds with overdrawn cash balances at December 31, 2012, which are not due to the timing of reimbursements, are listed below.

Fund No.	Fund		Amount
101	General	*	\$ 6,808,472
224	Ambulance/EMS Nonreverting		822,138
202	Protective Services Grant I	*	1,033,929
222	Emergency Shelter	*	464,782
240	Health and Human Services	*	451,911
281	Leased Properties - Gary Bldg Corp.	*	500,922

*Overdrawn 4 or more years

Several of the funds have been overdrawn continuously for four or more years, as identified above. The Emergency Shelter and Health and Human Services Funds negative balances at year end continue to increase each year which may indicate disbursements in excess of grant awards or failure to request grant funding. A similar comment appeared in the prior report.

The balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TEMPORARY TRANSFER OF FUNDS (INCLUDES SANITARY DISTRICT)

Various temporary transfers between certain funds have been made and not repaid within the time frame permitted by statute. A similar comment appeared in prior reports. The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2012:

CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Loan To	Loan From	Loans Outstanding January 1, 2012	Loans	Repayments	Loans Outstanding December 31, 2012
General	Other City funds (Excluding GSD Funds)	\$ 13,178,000	\$ 32,000	\$ 400,000	\$ 12,810,000
General	GSD funds	8,357,127	-	500,000	7,857,127
Other City funds (Excluding GSD Funds)	Other City funds (Excluding GSD Funds)	566,000	244,397	237,000	573,397
GSD funds	GSD funds	<u>5,541,000</u>	<u>5,775,000</u>	<u>3,792,000</u>	<u>7,524,000</u>
		<u>\$ 27,642,127</u>	<u>\$ 6,051,397</u>	<u>\$ 4,929,000</u>	<u>\$ 28,764,524</u>

Of the amounts outstanding and not repaid by December 31, 2012, \$16,474,127 has been outstanding since 2010 or prior, as noted below:

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since The Year Of
General Fund (101)	Various GSD Funds	\$ 7,857,127	2006
General Fund (101)	Lakefront TIF District (826)	4,000,000	2008
General Fund (101)	Lakefront TIF District (826)	1,260,000	2009
General Fund (101)	Consolidated Area TIF District (823)	968,000	2009
General Fund (101)	Media (270)	400,000	2010
General Fund (101)	Remote Encoding Center (416)	500,000	2010
Parks and Recreation (250)	Consolidated Area Exp TIF District (827)	380,000	2010
Redevelopment Operating (265)	Small Farms TIF District (821)	62,000	2010
GSD WWTP General Operating (670)	Various GSD Funds	<u>1,047,000</u>	2010
Total		<u>\$ 16,474,127</u>	

The Council passed ordinance 8651 on December 19, 2012, to extend most temporary transfers made to the General Fund for six months until June 2013. Three temporary transfers totaling \$573,397, outstanding at December 31, 2012, were not extended by the Council.

Indiana Code 36-1-8-4 concerning temporary transfer states in part:

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash low purposes from another fund of the political subdivision if all these conditions are met: . . . (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs. (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . ."

"(b) If the fiscal body of a political subdivision determines that an emergency exists that requires an extension of the prescribed period of a transfer under this section, the prescribed period may be extended for not more than six (6) months beyond the budget year of the year in which the transfer occurs if the fiscal body does the following: (1) Passes an ordinance or a resolution that contains the following: (A) A statement that the fiscal body has determined that an emergency

CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

exists. (B) A brief description of the grounds for the emergency. (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs. (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

CURRENT PAYMENT OF CLAIMS

NIPSCO

The City failed to pay claims for various goods and services in a timely manner. As of December 31, 2012, the City owed \$3,223,250 to Northern Indiana Public Service Company (NIPSCO) for gas and electric. The outstanding claims owed to NIPSCO as of December 31, 2012, were from the months of February through December 2012. The City paid NIPSCO the February through May 2012 outstanding claims throughout January to July 31, 2013.

As of July 31, 2013, the City owed NIPSCO an estimated \$3,900,000 for the months of June 2012 through June 2013.

Self-Insurance

During 2012, the City was self-insured for employee health benefits. A review the healthcare claims noted that claims were not timely paid and could be held up to six months before payments were released. As of December 31, 2012, the City had outstanding insurance claims of approximately \$3,570,225.

As of January 1, 2013, the City changed from being self-insured for employee health benefits to purchasing a healthcare insurance policy from Cigna. However, the City is still responsible for any outstanding healthcare claims that were incurred prior to the change in insurance plans. As of July 31, 2013, the City had outstanding insurance claims of approximately \$3,673,060.

Regional Development Authority (RDA)

As of December 31, 2012, the City owed \$6,875,000 to the RDA. The amount owed to the RDA has accumulated since 2007. A similar comment appeared in the prior audit.

Indiana Code 36-7.5-4-2(c) states in part: ". . . each fiscal officer shall transfer eight hundred seventy-five thousand dollars (\$875,000) to the development authority fund before the last business day of January, April, July, and October of each year . . ."

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE CITY OF GARY, LAKE COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the City of Gary's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on Lead Hazard Control Cluster

As described in items 2012-05, 2012-06, and 2012-07, in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding Cash Management, Davis-Bacon Act, Matching, and Reporting that are applicable to its Lead Hazard Control Cluster. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Basis for Qualified Opinion on HOME Investment Partnerships Program

As described in items 2012-09 and 2012-10 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding Reporting and Special Tests and Provisions - Maximum Per Unit Subsidy that are applicable to its HOME Investment Partnerships Program. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

Basis for Qualified Opinion on Assistance to Firefighters Grant

As described in items 2012-19 and 2012-20 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding Activities Allowed, Allowable Costs, and Reporting that are applicable to its Assistance to Firefighters Grant. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

Qualified Opinion on Lead Hazard Control Cluster, HOME Investment Partnerships Program and Assistance to Firefighters Grant

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraphs, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Lead Hazard Control Cluster, HOME Investment Partnerships Program, and Assistance to Firefighters Grant for the year ended December 31, 2012.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-11, 2012-14, 2012-15, 2012-17 and 2012-21. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

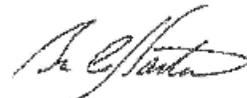
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-04, 2102-08, 2012-11, 2012-12, 2012-13, 2012-16, and 2012-18 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-03 and 2012-21, to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

August 29, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the City. The schedule and notes are presented as intended by the City.

CITY OF GARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
Department of Agriculture				
Child Nutrition Cluster				
Summer Food Service Program for Children (SFSPC) Summer Lunch Program	Indiana Department of Education	10.559	C2264574505	\$ 56,711
Total - Child Nutrition Cluster				<u>56,711</u>
Total - Department of Agriculture				<u>56,711</u>
Department of Housing and Urban Development				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	Direct	14.218		
Community Development Block Grant			B-12-MC-18-0005	3,222,528
Neighborhood Stabilization Program (NSP1)			B-08-MN-18-0005	579,023
Neighborhood Stabilization Program (NSP-3)			B11MN18005	<u>10,459</u>
Total - Community Development Block Grants/Entitlement Grants				<u>3,812,010</u>
ARRA - Community Development Block Grant ARRA Entitlement Grants (CDBG-R) CDBG-R	Direct	14.253	B-09-MY-18-0005	<u>3,608</u>
Total - CDBG - Entitlement Grants Cluster				<u>3,815,618</u>
Lead Hazard Control Cluster				
ARRA - Lead-Based Paint Hazard Control in Privately-Owned Housing Lead Hazard Control Grant Fund	Direct	14.907	INLHB041908	<u>628,339</u>
Total - Lead Hazard Control Cluster				<u>628,339</u>
Emergency Shelter Grants Program				
Emergency Shelter Program Emergency Shelter Grant	Direct	14.231	E-12-MC-18-0005 ES-011-019	24,535 <u>33,188</u>
Total - Emergency Shelter Grants Program				<u>57,723</u>
Supportive Housing Program				
Ark Renewal Grant	Direct	14.235	IN011B5HA21001	<u>118,340</u>
HOME Investment Partnerships Program				
Home Investment Partnership Program	Direct	14.239	M-12-MC-18-203	<u>597,103</u>
ARRA - Homelessness Prevention and Rapid Re-Housing Program (HPRP)				
Homelessness Prevention & Rapid Re-Housing Program	Direct	14.257	S09-MY-18-0005	<u>277,651</u>
Fair Housing Assistance Program - State and Local				
Fair Housing Assistance Program Fair Housing Assistance Program State and Local	Direct	14.401	FF205K125012 FF205K125012	59,980 <u>11,205</u>
Total - Fair Housing Assistance Program - State and Local				<u>71,185</u>
Total - Department of Housing and Urban Development				<u>5,565,959</u>
Department of Justice				
Crime Victim Assistance				
Crime Victim Assistance	Indiana Criminal Justice Institute	16.575	11VANP054	<u>110,331</u>
Violence Against Women Formula Grants				
Victim Awareness Education Stop Victim Awareness Education Stop	Indiana Criminal Justice Institute	16.588	11STVS016 12STVS042	7,996 <u>13,273</u>
Total - Violence Against Women Formula Grants				<u>21,269</u>
Public Safety Partnership and Community Policing Grants				
Technology Grant Technology Grant	Direct	16.710	2004CKWX0085 2005CKWX0024	75,890 <u>44,585</u>
Total - Public Safety Partnership and Community Policing Grants				<u>120,475</u>
ARRA - Public Safety Partnership and Community Policing Grants				
Cops Hiring Recovery Program (CHRP)	Direct	16.710	2009RKWX0345	<u>708,436</u>
Equitable Sharing Program				
Equitable Sharing Program Equitable Sharing Program	Direct	16.922	N/A N/A	34,848 <u>179,142</u>
Total - Equitable Sharing Program				<u>213,990</u>
Total - Department of Justice				<u>1,174,501</u>

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

CITY OF GARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012
(Continued)

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>Department of Transportation</u>				
Highway Planning and Construction Cluster				
Highway Planning and Construction	Indiana Department of Transportation	20.205		
East Ridge Road Project			DES# 0600750	375,199
Federal Appropriation for Gary Green Link			A249-7-320264	57,214
CMAQ E-85 FUEL			DES# 1173715	<u>66,869</u>
Total - Highway Planning and Construction				<u>499,282</u>
ARRA - Highway Planning and Construction	Indiana Department of Transportation	20.205		
49th Ave. - ARRA			DES# 0901043	32,678
15th Ave. - ARRA			DES# 0901044	21,636
35th Ave. Broadway - ARRA			DES# 0901045	40,366
35th Ave. Grant-Chase - ARRA			DES# 0901820	15,242
Old Hobart Rd. - Miller Ave. - ARRA			DES# 0901824	15,614
Central Ave. I-65 - ARRA			DES# 0901818	<u>17,939</u>
Total - ARRA - Highway Planning and Construction				<u>143,475</u>
Total - Highway Planning and Construction Cluster				<u>642,757</u>
Total - Department of Transportation				<u>642,757</u>
<u>Equal Employment Opportunity Commission</u>				
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	Direct	30.002		
Fair Employment Practices/Discrimination			EECCN110065	<u>39,000</u>
Total - Equal Employment Opportunity Commission				<u>39,000</u>
<u>Environmental Protection Agency</u>				
State Indoor Radon Grants	Indiana State Department of Health	66.032		
Radon Grant			SIRG 196-18	5,000
Radon Grant			SIRG 1173-1	<u>2,865</u>
Total - State Indoor Radon Grants				<u>7,865</u>
Community Action for a Renewed Environment (CARE) Program	Direct	66.035		
Care -I&II City of Gary			RE-00E00567	<u>132,837</u>
Environmental Workforce Development and Job Training Cooperative Agreements	Direct	66.815		
Brownsfield Job Training			JT-00E97401-0	<u>62,755</u>
Total - Environmental Protection Agency				<u>203,457</u>
<u>Department of Energy</u>				
ARRA - Energy Efficiency and Conservation Block Grant (EECBG) Program	Direct	81.128		
Energy Efficient Conservation Recovery Block			DE-FOA-0000013	<u>514,883</u>
Total - Department of Energy				<u>514,883</u>

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

CITY OF GARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012
(Continued)

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>Department of Health and Human Services</u>				
Immunization Cluster				
Immunization	Indiana State Department of Health	93.268		
Childhood Immunization Grants			IP 196-68	<u>33,473</u>
Total - Immunization Cluster				<u>33,473</u>
Public Health Emergency Preparedness	Indiana State Department of Health	93.069		
Public Health and Preparedness & Respons for Bioterrorism			196-70	9,252
Public Health and Preparedness & Respons for Bioterrorism			196-71	<u>29,136</u>
Total - Public Health and Emergency Preparedness				<u>38,388</u>
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children Childhood Lead Poision Prevention Program	Indiana State Department of Health	93.197		
			CLP 196-16	<u>67,843</u>
Social Services Block Grant	Indiana Criminal Justice Institute	93.667		
SSBG Grant			11SSBG0013	<u>19,100</u>
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes Family Violence and Prevention	Indiana Criminal Justice Institute	93.671		
			11FFV1698	<u>31,000</u>
Block Grants for Prevention and Treatment of Substance Abuse Prenatal Substance Use Prevention Program	Indiana State Department of Health	93.959		
			00B1-IN-SAPT	<u>101,208</u>
Preventive Health Services - Sexually Transmitted Diseases Control Grants Sexually Transmitted Disease	Indiana State Department of Health	93.977		
			STD 196-4	<u>130,305</u>
Maternal and Child Health Services Block Grant to the States Maternal and Child Health Clinic	Indiana State Department of Health	93.994		
			MCH 196-1	<u>152,646</u>
Total - Department of Health and Human Services				<u>573,963</u>
<u>Department of Homeland Security</u>				
Emergency Food and Shelter Program Cluster				
Emergency Food and Shelter National Board Program	Lake Area United Way	97.024		
FEMA			271600-005	<u>7,376</u>
Total - Emergency Food and Shelter Program Cluster				<u>7,376</u>
Assistance to Firefighters Grant	Direct	97.044		
Firefighter Safer Grant			EMW-2010-FH-00740	<u>2,139,631</u>
Total - Department of Homeland Security				<u>2,147,007</u>
Total federal awards expended				<u>\$ 10,918,238</u>

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

CITY OF GARY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Gary (City) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows for the year ended December 31, 2012:

Program Title	Federal CFDA Number	2012
Community Development Block Grants/Entitlement Grants	14.218	\$ 158,106
Emergency Shelter Grants Program	14.231	19,009

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

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

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	yes

Type of auditor's report issued on compliance for major programs:

Unmodified for all programs except for Lead Hazard Control Cluster, HOME Investment Partnerships Program, and Assistance to Firefighters Grant, which were qualified.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes
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Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
	CDBG - Entitlement Grants Cluster
	Lead Hazard Control Cluster
14.239	HOME Investment Partnerships Program
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program (HPRP)
16.710	Public Safety Partnership and Community Policing Grants and ARRA - Public Safety Partnership and Community Policing Grants
81.128	ARRA - Energy Efficiency and Conservation Block Grant (EECBG) Program
97.044	Assistance to Firefighters Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$327,552

Auditee qualified as low-risk auditee?	no
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CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section II – Financial Statement Findings

FINDING 2012-01 INTERNAL CONTROLS OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City did not have a proper system of internal controls in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place for the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal controls in place that operates effectively, material misstatements of the SEFA could remain undetected.

Various departments are responsible for applying for grants, seeking board approval for the grants, and overseeing the implementation of the grant and the related grant activity. The Finance Department is responsible for preparing the SEFA, based upon the grant information obtained from the financial accounting records and other information provided by each department. The financial accounting records maintained by the departments should reconcile with the City's detailed financial records. When the departments' reports were compared to the City's financial records, differences were noted. A review of the grant files maintained by the Finance Department determined that grant award letters, grant applications, grant budgets, reports, and other grant documents are not always provided by the various departments. These documents are necessary for the Finance Department to obtain required information for the SEFA such as CFDA titles and numbers, and to assist in identifying federal grants.

During the audit of the SEFA, we noted the following errors:

1. The SEFA did not include expenditures for ten projects associated with the Violence Against Women Formula Grants, the Highway Planning and Construction Cluster, and the State Indoor Radon Grants.
2. The SEFA included seven grants that were not federal grants of the City. Of those seven grants, two were grants from the Empowerment Zone. Two grants were state funds, not federal. One grant reported was actually cash seized and held by the Courts. One grant was reporting transfers, but had no actual activity during the audit period. The last grant was from Grand Trunk Corporation which is not federal dollars.
3. The expenditures reported for thirteen grants were incorrect when compared to the City's detail of receipts and detail of disbursements ledgers.
4. Seven of the grants on the schedule did not include or have the correct Catalog of Federal Domestic Assistance (CFDA) numbers relating to the programs.

The combination of these errors resulted in the SEFA being understated by \$434,906.

Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statements.

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)

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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 I the Department of Health and Human Services.
- (2) For Federal awards received as a sub-recipient, the name of the pass-through entity and indentifying number assigned by the pass-through entity shall be included.
- (3) Provide the total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to sub-recipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

We recommended the City design and implement controls and procedures to ensure accurate reporting of federal awards on the Schedule of Expenditures of Federal Awards.

FINDING 2012-02 INTERNAL CONTROLS OVER BANK RECONCILEMENTS

We noted deficiencies in the internal control system of the City related to financial transactions. We believe the following deficiencies constitute material weaknesses:

Bank reconcilements were completed on a consistent basis. However, City officials failed to properly document that the reconcilements had been reviewed by the appropriate level of management to ensure that identified reconciling items were appropriate, supportable and recorded timely.

We noted several reconciling items accumulated during the year that were included in the bank reconcilements for an extended period of time. The majority of these reconciling items were recorded to the ledgers in December 2012. Some of the material items noted on the City's November 2012 reconciliation for the City's Bank 10, which includes approximately 100 of the City's special revenue, capital project and agency funds, were:

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

1. Deposits from Accumed, for collections for ambulance services, dating back to February 2012, totaled \$123,097. The deposits were not recorded to the Ambulance/EMS Nonreverting Fund until December 2012.
2. Deposits for gaming admission tax, ambulance reimbursement, and grant drawdowns received from the Auditor of State, dating back to January 2012, totaled \$531,528. The gaming admission tax deposits were not recorded to the Riverboat Fund until December 2012. The ambulance reimbursement deposits were not recorded to the Ambulance/EMS Nonreverting Fund until December 2012. The grant drawdown deposits were not recorded to the Emergency Shelter, GSDWM East Ridge Road Project, and Health and Human Services Funds until December 2012.
3. The February 2012 bond payment of \$132,382 to Huntington Bank was not recorded to the Dalton Arms TIF District Fund until December 2012.
4. On June 29, 2012, the City recorded \$1,253,721 of Tax Increment Financing (TIF) tax collections from the Lake County Auditor to several of the City's TIF Funds. However, the City only received \$888,193 due to a tax refund withheld from the Lancaster Apartments - Lancaster Dusable TIF District Fund tax collections. This resulted in a \$365,528 reconciling item on the bank reconcilements from July until December 2012. On February 27, 2013, the City recorded negative receipts to the other TIF funds as of December 31, 2012, to adjust for the overstatement of the receipts.
5. In June 2012, a \$908,703 entry was recorded to reclassify funds from the cash balance to the investment balance in the Lakefront TIF District Fund. However, at that same time, a receipt was posted to the Lakefront TIF District Fund as an internal transfer. This overstated the cash balance of the Lakefront TIF District Fund until a correcting entry recorded a disbursement to the fund as of December 31, 2012. The \$908,703 overstatement was reflected as a reconciling item on the bank reconciliation from June until December 2012.
6. A \$131,778 wire transfer for a TIF payment received on July 13, 2012, from Sterling Management Group was not recorded in the Dalton Arms TIF District Fund in the City's ledger until December 31, 2012.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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)

We recommended the City establish controls over the reconciliation process to ensure monthly reconciliements are reviewed, such reviews are properly documented and reconciling items are resolved in a timely fashion.

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-03 INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS

Federal Agency: Department of Housing and Urban Development
Federal Programs: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218
Award Number: B-12-MC-18-0005, B-08-MN-18-005, B11MN18005

Management of the City has not established an effective internal control system related to the grant agreement and some of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Equipment and Real Property, Procurement, Suspension and Debarment and Special Tests and Provisions - Environmental Reviews. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements.

1. **Equipment and Real Property:** The City does not have a control system to provide separate identification for capital assets (including real property) acquired with federal and non-federal funds. A physical annual inventory of equipment purchased with federal funds was not presented for audit. Capital assets records are updated at the end of the year by the Finance Department. The Finance Department reviews the detail disbursements ledger for capital assets purchased throughout the year and records capital assets additions as necessary. However, procedures have not been established to provide a detail listing of capital assets records to each department for verification of the accuracy of the City's capital asset records.
2. **Procurement, Suspension and Debarment, Special Tests and Provisions – Environmental Reviews:** In an attempt to enhance compliance with grant requirements, the City designed an internal form titled "Housing Service Division-Case File Checklist." The checklist is used as a tool to ensure the proper supporting documentation and Board of Public Works and Safety actions for each property eligible for rehabilitation services are retained in a property file. The property files would include the awarded contract by the Board of Public Works and Safety, the www.SAM.gov search for suspension or debarment of the awarded contractor, and the environmental review notice from the Indiana Department of Environmental Management. The checklist is to track dates documentation was received and the initial of the person receiving it.

A test of the effectiveness of the checklist and the completion of the property files determined that the checklist was not an effective control. Portions of the checklist were not completed, even though the documentation was in the property file. Furthermore, the documentation was not included in the property folder, even though the checklist indicated the item was received. Documentation was not required on the checklist that an overall review of the checklist had been performed to verify that all that required documentation was received and maintained in the property folders and the checklist was completed.

3. **Suspension and Debarment:** The City did not have policies or procedures in place to ensure that contracts made with subrecipients and projects let for demolition were not made to suspended or debarred parties.

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to ensure that proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program.

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls related to the grant and the compliance requirements noted above that have a direct and material effect to the program.

FINDING 2012-04 INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO ARRA – LEAD-BASED PAINT HAZARD CONTROL IN PRIVATELY-OWNED HOUSING

Federal Agency: Department of Housing and Urban Development

Federal Program: ARRA - Lead-Based Paint Hazard Control in Privately-Owned Housing

CFDA Number: 14.907

Federal Award Number: INLHB041908

Management of the City has not established an effective internal control system related to the grant agreement and some of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Cash Management, Davis-Bacon Act, Eligibility, Matching, Period of Availability, Procurement, Suspension and Debarment and Reporting. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements.

1. Cash Management: Internal controls were not in place to monitor the cash management requirement of the grant. Payments to contractors were not disbursed for over a month from the time the funds were received. Additionally, the City did not have enough appropriations in the Lead Base Paint Hazard Control Grant Fund to disburse the funds once grant receipts were received.
2. Davis-Bacon Act: Internal controls or procedures were not in place to ensure the City complied with the requirements of the Davis-Bacon Act. Management did not review to ensure the lead remediation project contracts included the verbiage that the contractors were to follow the Davis-Bacon Act requirements.
3. Eligibility: The Department of Community Development maintains a file for each property requesting participation in the Lead Remediation Program. The City established a worksheet to determine the eligibility of the household requesting lead remediation from the home. This worksheet aided in calculating and determining the household income to determine if the household qualified for the lead remediation program. The worksheet provided for a signature of the person who did the calculations. Out of the 11 property files tested, only 2 contained the worksheet.
4. Matching and Reporting: The Department of Community Development failed to retain the supporting documentation necessary to test internal controls over the matching and reporting requirements. As a result, internal controls could not be tested. The lack of record retention can be attributed to employee turnover at Community Development.
5. Period of Availability: Internal controls were not established to ensure all grant activity was obligated within the period of availability. This resulted in the City requesting funds in excess of immediate need to ensure all funds were drawn prior to the close of the grant, in order to be reimbursed for work that was still in progress.

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

6. Procurement and Suspension and Debarment: In an attempt to enhance compliance with grant requirements, the City designed an internal form titled "Lead Checklist." The checklist is used as a tool to ensure the proper supporting documentation and Board of Public Works and Safety actions for each property eligible for lead remediation services are retained in a property file. The property files would include the awarded contract by the Board of Public Works and Safety and the www.SAM.gov search for suspension or debarment of the awarded contractor. The checklist is to track dates documentation was received and the initials of the person receiving it.

A test of the effectiveness of the checklist and the completion of the property files determined that the checklist was not an effective control. Portions of the checklist were not completed, even though the documentation was in the property file. Furthermore, the documentation was not included in the property folder, even though checklist indicated the item was received. Documentation was not required on the checklist that an overall review of the checklist had been performed to verify that all that required documentation was received and maintained in the property folders or that the checklist was completed.

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, 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.

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. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls related to the grant and the compliance requirements noted above that have a direct and material effect to the program.

FINDING 2012-05 COMPLIANCE OVER CASH MANAGEMENT REQUIREMENT RELATED TO ARRA – LEAD-BASED PAINT HAZARD CONTROL IN PRIVATELY-OWNED HOUSING

Federal Agency: Department of Housing and Urban Development
Federal Program: ARRA - Lead-Based Paint Hazard Control in Privately-Owned Housing
CFDA Number: 14.907
Federal Award Number: INLHB041908

Amounts received by the City for the ARRA - Lead Based Paint Hazard Control in Privately-Owned Housing grant were drawn down in advance. When funds are drawn in advance of need, the City is required to monitor cash balances to ensure funds are only drawn as needed to cover current expenditures.

The City requested and received the final drawdowns of the lead grant in May 2012; however, the funds were not expended until August 1, 2012. Grant funds were on deposit an average of 40 days before they were expended for project costs.

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

24 CFR § 85.21 states in part:

"(b) *Basic standard.* Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205.

(c) *Advances.* Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee."

Failure to comply with cash management requirements could result in the loss of federal funds to the City.

We recommended that officials comply with the cash management requirements to minimize the time elapsing between the receipt of federal funds and subsequent disbursement.

**FINDING 2012-06 COMPLIANCE OVER DAVIS-BACON ACT REQUIREMENT RELATED TO ARRA –
LEAD-BASED PAINT HAZARD CONTROL IN PRIVATELY-OWNED HOUSING**

Federal Agency: Department of Housing and Urban Development
Federal Program: ARRA - Lead-Based Paint Hazard Control in Privately-Owned Housing
CFDA Number: 14.907
Federal Award Number: INLHB041908

Under the grant agreement, the City was to comply with the Davis-Bacon Act on all contractors and subcontractors for wages paid to laborers and mechanics over \$2,000. The City was to obtain recent and applicable wage rates from the U.S. Department of Labor and incorporate them into the construction contract.

The contracts for the lead remediation for each property did not include the verbiage that the contractors were to follow the Davis-Bacon Act requirements. As a result, the contractors were not bound to comply with the Davis-Bacon Act.

For 8 out of 12 contractors' payrolls tested, the contractor did not sign the certification page. The certification page states that the pay period was correct and complete; that the wage rates for laborers or mechanics contained therein were not less than the applicable wage rates contained in any wage determination incorporated into the contract; and that the classifications set forth therein for each laborer or mechanic conform with the work he performed.

24 CFR § 85.36 states in part:

"(i) *Contract provisions.* A grantee's and subgrantee's contracts must contain provisions in paragraph (i) of this section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Federal Procurement Policy. . . .

(5) Compliance with the Davis-Bacon Act (40 U.S.C. 276a to 276a-7) as supplemented by Department of Labor regulations (29 CFR part 5). (Construction contracts in excess of \$2000 awarded by grantees and subgrantees when required by Federal grant program legislation)."

Failure to comply with Davis-Bacon Act requirements could result in the loss of federal funds to the City.

We recommended that officials comply with the Davis-Bacon Act requirement as required by the grant.

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2012-07 COMPLIANCE OVER MATCHING AND REPORTING REQUIREMENTS RELATED TO ARRA – LEAD-BASED PAINT HAZARD CONTROL IN PRIVATELY-OWNED HOUSING

Federal Agency: Department of Housing and Urban Development
Federal Program: ARRA - Lead-Based Paint Hazard Control in Privately-Owned Housing
CFDA Number: 14.907
Federal Award Number: INLHB041908

The supporting documentation for the matching and reporting requirements were not presented for audit.

Per the grant agreement, the City was required to match not less than 10 percent of the total grant amount. This can be accomplished by in-kind contribution, but the City must retain documentation to verify that the match was achieved. The City received a discount on laboratory fees and was able to claim the whole amount but paid only the discounted amount and the difference was to be accounted for as part of the match. The City did not have any documentation to support the amount of the match. We were unable to verify that the 10 percent of the total grant match requirement was achieved.

In addition, the City was required to submit quarterly and final SF-425 Federal Financial Reports (FFR). The quarterly and final SF-425 Federal Financial Reports (FFR) were not presented for audit. We were unable to verify neither the submission nor the accuracy of the reports.

24 CFR § 85.24(a)(6) states in part: "*Records.* Costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived."

24 CFR § 85.41(b)(3) states: "HUD shall determine the frequency of the FFR for each project or program, considering the size and complexity of the particular project or program. However, the report will not be required more frequently than quarterly or less frequently than annually. The reporting period end dates shall be March 31, June 30, September 30 or December 31. A final FFR shall be required at the completion of the award agreement and shall use the end date of the project or grant period as the reporting end date."

24 CFR § 85.42 Retention and access requirements for records states in part:

(a) Applicability. (1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are: (i) Required to be maintained by the terms of this part, program regulations or the grant agreement, or (ii) Otherwise reasonably considered as pertinent to program regulations or the grant agreement. . . .

(b) Length of retention period. (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section. . . .

(c) Starting date of retention period —(1) General. When grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period. However, if grant support is continued or renewed quarterly, the retention period for each year's records starts on the day the grantee submits its expenditure report for the last quarter of the Federal fiscal year. In all other cases, the retention period starts on the day the grantee submits its final expenditure report. If an expenditure report has been waived, the retention period starts on the day the report would have been due."

Failure to comply with matching and reporting requirements could result in the loss of federal funds to the City.

We recommended that officials comply with the matching and reporting requirements as required by the grant.

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2012-08 INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE HOME INVESTMENT PARTNERSHIPS PROGRAM

Federal Agency: Department of Housing and Urban Development
Federal Program: HOME Investment Partnerships Program
CFDA Number: 14.239
Federal Award Number: M-12-MC-18-203

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and some of the compliance requirements that have a direct and material effect to the programs. This includes the following compliance requirements: Eligibility, Suspension and Debarment, Reporting and Special Tests and Provisions – Maximum Per-Unit Subsidy. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance 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 type of compliance requirement of a federal program will be prevented, detected and corrected, in a timely manner.

1. Eligibility: The City failed to establish controls, including segregation of duties, over the eligibility requirement. One individual performed the calculation to determine eligibility without management review.
2. Suspension and Debarment: In order to have an effective internal control system, the City should be monitoring suspension and debarment of Community and Housing Development Organizations (CHDO's). The City did not have a system in place to ensure the CHDO's contracted with were not suspended or debarred.
3. Reporting: The City did not establish controls to ensure the City was in compliance with the reporting requirement. An effective internal control structure would include someone preparing the reports and a review by another individual.
4. Special Tests and Provisions - Maximum Per Unit Subsidy: The City failed to establish controls to monitor compliance with the maximum per unit subsidy requirement. Visible documentation was not maintained that the City had calculated this amount, or monitored expenditures, to ensure the maximum amount was not exceeded.

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. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls related to the grant and the compliance requirements noted above that have a direct and material effect to the program.

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2012-09 COMPLIANCE OVER REPORTING REQUIREMENTS RELATED TO HOME INVESTMENT PARTNERSHIPS PROGRAM

Federal Agency: Department of Housing and Urban Development
Federal Program: HOME Investment Partnership Program
CFDA Number: 14.239
Federal Award Number: M-12-MC-18-203

As part of the grant agreement with the Department of Housing and Urban Development (HUD), the City is required to submit an Annual Section III report detailing new hires who reside in a section III area as well as hours worked by those employees. The form may be completed by listing all zero amounts; however, the City must submit a sufficient explanation as to why the form was completed with all zero amounts.

The Annual Section III report filed in 2013 for the calendar year 2012 was completed with all zero amounts. The City failed to provide a sufficient explanation as to why the report did not disclose the required information.

24 CFR § 135.90 states:

"Each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for the purpose of determining the effectiveness of section 3. Where the program providing the section 3 covered assistance requires submission of an annual performance report, the section 3 report will be submitted with that annual performance report. If the program providing the section 3 covered assistance does not require an annual performance report, the section 3 report is to be submitted by January 10 of each year or within 10 days of project completion, whichever is earlier. All reports submitted to HUD in accordance with the requirements of this part will be made available to the public."

The City was not in compliance with the reporting requirements for this program. Failure to comply with these requirements may cause the City to be ineligible to receive future funds.

We recommended that officials comply with reporting requirements as required by the grant.

FINDING 2012-10 COMPLIANCE OVER SPECIAL TESTS AND PROVISIONS – MAXIMUM PER UNIT SUBSIDY REQUIREMENT RELATED TO HOME INVESTMENT PARTNERSHIPS PROGRAM

Federal Agency: Department of Housing and Urban Development
Federal Program: HOME Investment Partnership Program
CFDA Number: 14.239
Federal Award Number: M-12-MC-18-203

Each year, the Department of Housing and Urban Development (HUD), calculates and issues maximum amounts its HOME program recipients are allowed to expend for each individual unit funded with HOME dollars. The amounts vary for each recipient. As part of the special tests and provisions required by the HOME program, HOME program grantees are to ensure that the maximum amounts established by HUD are not exceeded.

The City was unable to provide the maximum amounts that were applicable to the projects during the audit period. Therefore, we were unable to test compliance with the maximum per unit subsidy special test and provision.

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

24 CFR § 92.250 states:

"(a) Maximum Per-Unit Subsidy Amount: The total amount of HOME funds and ADDI funds that a participating jurisdiction may invest on a per-unit basis in affordable housing may not exceed the per-unit dollar limitations established under section 221(d)(3)(ii) of the National Housing Act ([12 U.S.C. 17151\(d\)\(3\)\(ii\)](#)) for elevator-type projects that apply to the area in which the housing is located. These limits are available from the Multifamily Division in the HUD Field Office. If the participating jurisdiction's per-unit subsidy amount has already been increased to 210% as permitted under section 221(d)(3)(ii) of the National Housing Act, upon request of the Field Office, HUD will allow the per-unit subsidy amount to be increased on a program-wide basis to an amount, up to 240% of the original per unit limits.

(b) Subsidy layering: Before committing funds to a project, the participating jurisdiction must evaluate the project in accordance with guidelines that it has adopted for this purpose and will not invest any more HOME funds, in combination with other governmental assistance, than is necessary to provide affordable housing."

24 CFR § 85.42 Retention and access requirements for records states in part:

"(a) *Applicability.* (1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are: (i) Required to be maintained by the terms of this part, program regulations or the grant agreement, or (ii) Otherwise reasonably considered as pertinent to program regulations or the grant agreement. . . .

(b) *Length of retention period.* (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section. . . .

(c) *Starting date of retention period—(1) General.* When grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period. However, if grant support is continued or renewed quarterly, the retention period for each year's records starts on the day the grantee submits its expenditure report for the last quarter of the Federal fiscal year. In all other cases, the retention period starts on the day the grantee submits its final expenditure report. If an expenditure report has been waived, the retention period starts on the day the report would have been due."

Due to a lack of documentation, we were unable to verify compliance with this requirement. Failure to comply with these requirements could cause the City to be ineligible to receive future funding.

We recommended that officials comply with the maximum per-unit subsidy requirement.

FINDING 2012-11 INTERNAL CONTROLS AND COMPLIANCE OVER ALLOWABLE COSTS RELATED TO ARRA – HOMELESSNESS PREVENTION AND RAPID RE-HOUSING PROGRAM (HPRP)

Federal Agency: Department of Housing and Urban Development
Federal Program: ARRA - Homelessness Prevention and Rapid Re-Housing Program
CFDA Number: 14.257
Award Number: S09-MY-18-0005

Homelessness Prevention and Rapid Re-Housing Program (HPRP) provides temporary financial assistance and housing relocation and stabilization services to individuals and families who are homeless or would be homeless without this assistance. After receiving the approval for funding regarding the HPRP, the City entered into a contract dated September 30,

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2009, with Continuum of Care, a not-for-profit organization (grantee) to administer the entire HPRP grant. The contract was not revised to reflect the actual responsibilities of Continuum of Care. According to the contract, the grantee had the responsibility to administer the entire grant and the City was to reimburse the grantee for the related expenditures. The City did not have internal controls in place to monitor that the contract was being followed or that the contract needed to be adjusted to reflect the actual responsibilities of Continuum of Care.

1. According to the contract, the federal funds were to be reimbursed to the grantee. According to the City, the grantee determined that was not feasible as it did not have the cash flow to expend the funds prior to reimbursement by the City. The City did not void or amend the contract to more accurately reflect the contractual arrangement between the City and the grantee. The City did not disburse any funds to the grantee (except for their administration fees) during 2012, but paid all the grantee's vendors directly to administer the HPRP grant.
2. The grantee had entered into agreements with "independent contractors" to conduct the HPRP grant activities. These independent contractors were responsible for determining the eligibility of participants of the grant including preparing all the necessary paperwork and monitoring of services of the HPRP grant. The City paid these independent contractors directly without a written contract between the City and the independent contractor.

Similar findings were previously reported as Finding 2010-05 and Finding 2011-03.

24 CFR § 85.20 states in part:

"Standards for financial management systems. . . (b) The financial management systems of other grantees and subgrantees must meet the following standards: . . .

- (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

Circular A-87, Attachment B (32) states in part: "Professional service costs. b. In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant: (8) Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).

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."

Failure to establish the proper controls over the payment of claims and complying with contractual agreements could jeopardize the City's ability to secure future federal awards.

We recommended that officials establish procedures to review and monitor contracts, and that the contract is being followed as agreed upon.

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2012-12 INTERNAL CONTROLS OVER PERIOD OF AVAILABILITY RELATED TO ARRA – HOMELESSNESS PREVENTION AND RAPID RE-HOUSING PROGRAM (HPRP)

Federal Agency: Department of Housing and Urban Development
Federal Program: ARRA - Homelessness Prevention and Rapid Re-Housing Program
CFDA Number: 14.257
Award Number: S09-MY-18-0005

The City did not have controls in place over the period of availability. The City contracted out the implementation of the program to an outside organization. This organization would send the documentation on whom to pay and the amount and the City would issue a check to that vendor for the amount. These payments would go through the normal City process for issuing checks. The City was unable to provide documentation that they had established and implemented controls over the period of availability. As a result of not having controls over the period of availability, it would be possible that payments to vendors could be processed after the end of the grant.

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."

Failure to comply with these requirements could cause the City to be ineligible to receive future federal awards.

We recommended that the City's management establish controls over the period of availability compliance requirements within the U.S. Department of Housing and Urban Development's guidelines.

FINDING 2012-13 INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS

Federal Agency: Department of Justice
Federal Program: Public Safety Partnership and Community Policing Grants, ARRA - Public Safety Partnership and Community Policing Grants
CFDA Number: 16.710
Federal Award Number: 2004CKWX0085, 2005CKWX0024, 2009RKWX0345

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and some of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements; Activities Allowed/Allowable Costs, Cash Management, and Reporting. 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 grant.

1. Activities Allowed/Allowable Costs: The City does not have effective controls to ensure that the disbursements recorded to the CHRP Fund (#808) agree with the amounts submitted for reimbursement from the federal government. Actual disbursements recorded to the established grant fund are not compared to the grant budget. No review was completed by the City to ensure that only allowable activities and costs were charged to the grant.

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2. **Cash Management:** The Police Director of Administrative Services prepared the Request for Funds based upon: (a) payroll transmittal reports that were submitted to the Finance Department to prepare the biweekly payrolls and (b) additional calculations performed by the Director for the fringe benefits. The supporting documentation of the calculation was not retained for audit. The submitted reports were not reviewed or monitored by someone other than the individual who prepared it. The lack of oversight controls does not allow for the prevention, or detection and correction, of noncompliance, on a timely basis, with the compliance requirement.
3. **Reporting:** The Police Director of Administrative Services was responsible for preparing and submitting the required reports. The submitted reports were not reviewed or monitored by someone other than the individual who prepared it. The lack of oversight controls does not allow for the prevention, or detection and correction, of noncompliance on a timely basis with the compliance requirement.

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 type of 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. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program 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 the compliance requirements noted above that have a direct and material effect to the program.

***FINDING 2012-14 COMPLIANCE OVER CASH MANAGEMENT REQUIREMENTS
RELATED TO THE PUBLIC SAFETY AND COMMUNITY POLICING GRANTS***

Federal Agency: Department of Justice

Federal Program: Public Safety Partnership and Community Policing Grants,
ARRA - Public Safety Partnership and Community Policing Grants

CFDA Number: 16.710

Federal Award Number: 2005CKWX0024, 2009RKWX0345

Amounts received by the City for the 2009RKWX0345 grant were drawn down on a reimbursement basis. When funds are drawn based upon the reimbursement method, the City is required to obligate and distribute the funds prior to the request for reimbursement being generated.

The City did not retain the supporting documentation of how the three 2012 reimbursement requests were calculated. A comparison of the reimbursement requests to the City's CHRP Fund disbursements, posted for the same time period noted on the request, determined that none of the reimbursement requests agreed to the City's ledger. The first two requests were \$32,087 less than what the City disbursed from October 2011 to June 1, 2012. The third reimbursement request was determined to be \$80,260 greater than the disbursements posted to the grant fund from June 1, 2012 to October 18, 2012.

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(Continued)

Furthermore, the final \$44,585 draw down for the 2005CKWX0085 grant was received November 5, 2012. The City classified the draw down as an advance draw down. The City is required to minimize the time elapsing between the receipt of the grant funds and the subsequent disbursement of the funds. The City disbursed \$10,996 on December 5, 2012, 30 days after receiving the drawdown, for the purchase of cameras. No other subsequent disbursements were noted.

In May 2013, police personnel stated that the \$44,585 noted above was not an advance draw down as noted; rather a reimbursement. However, police personnel could not provide supporting documentation of previously paid invoices to support this statement. In July 2013, police personnel then provided a purchase order for the purchase of bullet proof vests totaling \$44,496. The payment for the bullet proof vests had not occurred as of July 11, 2013.

28 CFR § 66.20 Standards for financial management systems states in part:

"(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. . . .
- (7) Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

28 CFR § 66.21(d) states:

"*Reimbursement.* Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met. Grantees and subgrantees may also be paid by reimbursement for any construction grant. Except as otherwise specified in regulation, Federal agencies shall not use the percentage of completion method to pay construction grants. The grantee or subgrantee may use that method to pay its construction contractor, and if it does, the awarding agency's payments to the grantee or subgrantee will be based on the grantee's or subgrantee's actual rate of disbursement."

The City was not in compliance with cash management requirements for this program, and the City's inaction could result in the withholding of future payments, suspension or termination of the current award, and withholding of future awards.

We recommended that officials review compliance requirements related to grant management to ensure cash management compliance.

CITY OF GARY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (Continued)

FINDING 2012-15 COMPLIANCE OVER REPORTING REQUIREMENTS RELATED TO THE PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS

Federal Agency: Department of Justice
 Federal Program: Public Safety Partnership and Community Policing Grants,
 ARRA - Public Safety Partnership and Community Policing Grants
 CFDA Number: 16.710
 Federal Award Number: 2005CKWX0024, 2009RKWX0345

The Department of Justice required the City to submit quarterly Federal Financial Report SF-425 as well as quarterly COPS Recovery Act Progress Reports for the 2009RKWX0345 grant.

For the 2009RKWX0345 grant, the City failed to retain proper supporting documentation of how the amounts reported on the quarterly reports were calculated. A comparison of the quarterly reports to the grant activity posted to the City's accounting ledger noted variances for all quarters of 2012 for both the Federal Financial Report SF-425 and the COPS Recovery Act Progress Reports. The following tables reflect the variances noted in the reports:

Quarter	Federal Financial Report SF-425			
	1st	2nd	3rd	4th
Federal Share of Expenditures Reported	\$ 1,183,615	\$ 1,786,665	\$ 1,922,665	\$ 2,023,465
Ledger Disbursement Activity	<u>1,285,306</u>	<u>1,493,150</u>	<u>1,629,174</u>	<u>1,781,805</u>
Variance	<u>\$ (101,691)</u>	<u>\$ 293,515</u>	<u>\$ 293,491</u>	<u>\$ 241,660</u>

Quarter	COPS Recovery Act Progress Report			
	1st	2nd	3rd	4th
Reported Funds Invoiced/Received	\$ 998,285	\$ 998,285	\$ 1,922,665	\$ 1,922,665
Ledger Receipt Activity	<u>1,078,229</u>	<u>1,487,323</u>	<u>1,487,323</u>	<u>1,786,665</u>
Variance	<u>\$ (79,944)</u>	<u>\$ (489,038)</u>	<u>\$ 435,342</u>	<u>\$ 136,000</u>

Quarter	COPS Recovery Act Progress Report			
	1st	2nd	3rd	4th
Reported Expenditure Amount	\$ 998,285	\$ 998,285	\$ 1,922,665	\$ 2,023,465
Ledger Disbursement Activity	<u>1,285,306</u>	<u>1,493,150</u>	<u>1,629,174</u>	<u>1,781,805</u>
Variance	<u>\$ (287,021)</u>	<u>\$ (494,865)</u>	<u>\$ 293,491</u>	<u>\$ 241,660</u>

For the 2005CKWX0024 grant, the fourth quarter Federal Financial Report SF-425 did not properly reflect the grant balance of \$33,588.51 as Federal Share of unliquidated obligations.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

28 CFR § 66.41 Financial reporting, states in part:

"(b) *Financial Status Report* —(1) *Form*. Grantees will use Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all nonconstruction grants and for construction grants when required in accordance with § 66.41(e)(2)(iii).

(2) *Accounting basis*. Each grantee will report program outlays and program income on a cash or accrual basis as prescribed by the awarding agency. If the Federal agency requires accrual information and the grantee's accounting records are not normally kept on the accrual basis, the grantee shall not be required to convert its accounting system but shall develop such accrual information through and analysis of the documentation on hand."

28 CFR 66.20 states in part:

"(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(1) *Financial reporting*. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant."

The City was not in compliance with reporting requirements for this program. The failure to submit required reports could result in the withholding of future payments, suspension or termination of the current award, and withholding of future awards.

We recommended that officials ensure that all required reports are prepared on an accurate basis, in accordance with the reporting requirements.

FINDING 2012-16 INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT

Federal Agency: Department of Energy

Federal Program: Energy Efficiency and Conservation Block Grant Program (EECBG)

CFDA Number: 81.128

Federal Award Number: DE-FOA-0000013

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and some of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Cash Management, Earmarking, Suspension and Debarment, and Reporting. 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 grant.

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 type of 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.

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

1. **Cash Management:** The City did not effectively establish internal controls to ensure cash drawdowns were only made for immediate needs and to minimize the amount of time between receiving and expending the funds. In order to achieve this, the City must establish an effective system for monitoring current expenditures and the corresponding reimbursements.
2. **Earmarking:** Grant expenditures for administering the grant were not to exceed 10 percent of the total award. The City did not effectively establish internal controls to ensure compliance with the earmarking requirement related to administrative expenditures. The City failed to closely monitor grant expenditures due to a lack of sufficient detail provided on invoices provided by the former Director.
3. **Suspension and Debarment:** In order to have an effective internal control system, it is important to ensure that the activities of contractors are monitored. This is accomplished by making sure proper oversight, reviews, and approvals take place, as well as ensuring the governing board is informed about any deficiencies to allow appropriate follow up action to be taken. The City did not provide documentation that Suspension and Debarment requirements had been reviewed.
4. **Reporting:** The City did not effectively establish internal controls to ensure accurate reporting. Reports should be prepared based on the City's financial records. The reports should be prepared and reviewed by two separate individuals and there should be adequate documentation to support this.

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. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program 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 the compliance requirements noted above that have a direct and material effect to the program.

***FINDING 2012-17 COMPLIANCE OVER SUSPENSION AND DEBARMENT REQUIREMENT
RELATED TO THE ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT PROGRAM***

Federal Agency: Department of Energy
Federal Program: Energy Efficiency and Conservation Block Grant Program (EECBG)
CFDA Number: 81.128
Federal Award Number: DE-FOA-0000013

The Department of Energy required the City to verify that awarded contracts were not with suspended or debarred entities. The City failed to check the Excluded Parties List System (as of November 21, 2012, exclusions can be found through the System of Award Manager Center at www.sam.gov), collect a certification from the entity, or add a clause or condition to the contract.

The City failed to provide documentation that it was in compliance with suspension and debarment requirements. The City did not receive a certification from the contractor, nor did the City include a clause or condition to the contract addressing suspension and debarment.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

10 CFR § 600.235 Subawards to debarred and suspended parties 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."

The City was not in compliance with the suspension and debarment requirement. Failure to comply with these requirements may cause the City to be ineligible to receive future funding.

We recommended that officials establish policies and procedures to ensure that all contracts financed with federal assistance would not be awarded to an entity which has been suspended or debarred.

FINDING 2012-18 INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE ASSISTANCE TO FIREFIGHTERS GRANT

Federal Agency: Department of Homeland Security
Federal Program: Assistance to Firefighters Grant
CFDA Number: 97.044
Federal Award Number: EMW-2010-FH-00740

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Activities Allowed/Allowable Costs, Cash Management, and Reporting. 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 grant.

1. **Activities Allowed/Allowable Costs:** The City did not have effective controls to ensure that the disbursements posted to the Firefighter SAFER Grant Fund (#812) agreed with the amounts submitted for reimbursement from the federal government and that only Activities Allowed/Allowable Costs were properly posted. A reconciliation of the disbursements posted to the Firefighter SAFER Grant Fund (#812), to the Request for Funds was not completed by the City. The posting of allowable grant disbursements to other funds and unallowable disbursements to the grant funds did not provide the City with accurate grant fund activity to compare to the grant budget. No review was completed by the City to ensure that only allowable activities and costs were charged to the grant.
2. **Cash Management:** The Fire Deputy Chief prepares the Request for Funds based upon payroll distribution reports obtained from the Finance Department. The submitted reports were not reviewed or monitored by someone other than the individual who prepared it. The lack of oversight controls does not allow for the prevention, or detection and correction of noncompliance, on a timely basis, with the compliance requirement.
3. **Reporting:** The Fire Deputy Chief was responsible for preparing and submitting the required reports. The submitted reports were not reviewed or monitored by someone other than the individual who prepared it. The lack of oversight controls does not allow for the prevention, detection and correction of noncompliance, on a timely basis, with the compliance requirement.

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 type of 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

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

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. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program 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 the compliance requirements noted above that have a direct and material effect to the program.

***FINDING 2012-19 COMPLIANCE OVER ACTIVITIES ALLOWED/ALLOWABLE COSTS
REQUIREMENTS RELATED TO THE ASSISTANCE TO FIREFIGHTERS GRANT***

Federal Agency: Department of Homeland Security
Federal Program: Assistance to Firefighters Grant
CFDA Number: 97.044
Federal Award Number: EMW-2010-FH-00740

The Department of Homeland Security, through its Federal Emergency Management Agency, awarded the City a Staffing for Adequate Fire and Emergency Response (SAFER) Hiring Grant on May 5, 2011. The City was awarded \$3,753,099 for the hiring of 34 firefighters. The approved grant budget was \$2,739,489 for personnel (salary) and \$1,013,610 for fringe benefits costs associated with the hiring of the 34 firefighters.

The 2010 SAFER Grant Program Guidance and Application Kit, Part III, D.1. - Hiring of Firefighters Category states in part:

"a. Eligible Expenses: The only eligible costs under the Hiring of Firefighters activity are the salary and associated benefits (actual payroll expenses) for the new firefighters or the rehired firefighters. SAFER funding will pay for 100 percent of the salary and benefit costs for each funded position. There is no limit imposed on any funded position other than the fact that the reimbursable costs must be actual costs incurred. Firefighters hired prior to the award date are not eligible under the "New Hire Activity". Overtime costs are not eligible. However, costs for overtime that fire departments routinely pay as a part of the base salary or the firefighter's regularly scheduled and contracted shift hours are eligible in order to comply with the Fair Labor Standards Act (FLSA)."

b. Ineligible Expenses: Pre-application costs, such as grant writer fees, administrative costs, and indirect costs associated with hiring of firefighters, are not eligible. Costs of training and equipping firefighters are not eligible. However, the salaries and benefits of firefighters hired under the SAFER grants while they are engaged in training are eligible. Costs of uniforms and physicals are not eligible. In addition, funds to support additional hired positions or funds received from Federal, State, or local sources cannot be used to supplant normal operating budgets unless a waiver has been granted."

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

In June 2011, the City established the Firefighter SAFER Grant Fund (#812) to account for the financial activity of the SAFER grant from the federal government. At that same time, the Common Council approved a budget for the new fund. In addition to an amount appropriated for the payment of salary and fringe benefits for the costs of personnel services, the 2011 approved budget for the Firefighter SAFER Grant Fund (#812) included \$3,000 for Travel & Education and \$55,000 for Machinery Equipment. The 2012 approved budget for the F/F SAFER Grant Fund 812 included \$6,700 for Travel & Education. The appropriations for Travel & Education and Machinery Equipment costs were not allowed per the grant agreement.

In July 2011, the City hired 32 firefighters and their gross salary and related benefits were posted to the Firefighter SAFER Grant Fund (#812).

To prepare the Request for Funds, the Fire Deputy Chief obtained a Payroll Gross Pay Distribution report from the Finance Department for a specific range of pay dates. The Fire Deputy Chief would then prepare a spreadsheet of the Payroll Gross Pay Distribution Report of allowable costs and benefits. Once the Fire Deputy Chief determined the amount of the request, he would prepare the Request for Funds by employee by submitting the salary and benefit costs incurred during the specific time period.

The recorded disbursement activity of the Firefighter SAFER Grant Fund (#812) was not the basis for the preparation of the Request for Funds, nor had the grant fund been reconciled to the Request for Funds. If a reconciliation of the grant fund to the Request for Funds was completed by the City, the following deficiencies may have been detected and corrected in a timely manner:

1. The first Request for Funds on December 27, 2011, included \$30,201.02 in the benefits category for employer unemployment (\$15,100.51) and workmen's compensation (\$15,100.51) cost. The City did not post a disbursement for these costs in either the Firefighter SAFER Grant Fund (#812) or the City's General Fund. Per the Finance Department, the City does not allocate unemployment or workmen's compensation cost to police and fire personnel. Therefore, since the City was reimbursed for amounts that were not actually paid by the City as benefits for the firefighters, the \$30,201.02 is considered a questioned cost.
2. The second Request for Funds on March 2, 2012, which covered the period from November 5, 2011 to January 15, 2012, did not include \$48,057.16 for the January 13, 2012 gross salary and benefits posted to the Firefighter SAFER Grant Fund (#812). In addition, \$2,451.06 of employer Medicare cost paid for the allowed firefighters from November 18, 2011 to December 31, 2011, was not included in the Request for Funds.
3. The third Request for Funds on August 16, 2012, which covered the period from January 16, 2012 to July 15, 2012, did not include \$68,178.54 for the January 27, 2012 gross salary and benefits posted to the Firefighter SAFER Grant Fund (#812).
4. The City was reimbursed \$137,379.76 for allowable scheduled overtime and employer health benefit costs that were posted to the City's General Fund and not the Firefighter SAFER Grant Fund (#812).
5. The City posted \$84,889.24 of gross salary and benefits for the unallowable costs of two firefighters, worker's compensation, and other overtime to the grant fund. Since the City did not include these posting in the submitted Request for Funds, we do not have a questioned cost at this time.
6. Three claims totaling \$60,051.50 for unallowable activities/costs were posted to the Firefighter SAFER Grant Fund (#812). One claim for \$54,994 was for the purchase of uniforms in December of 2011 and the other two claims totaling \$5,057.50 were in the first quarter of 2012 for EMT classes. Since the City did not include these posting in the submitted Request for Funds, we do not have a questioned cost at this time.

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

44 CFR § 13.20 Standards for financial management systems states in part:

"(b) The financial management systems of other grantees and subgrantees must meet the following standards:

...

- (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- (4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.
- (5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs. . ."

Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that officials ensure that only allowable costs are charged to the grant.

***FINDING 2012-20 COMPLIANCE OVER REPORTING REQUIREMENT
RELATED TO THE ASSISTANCE TO FIREFIGHTERS GRANT***

Federal Agency: Department of Homeland Security
Federal Program: Assistance to Firefighters Grant
CFDA Number: 97.044
Federal Award Number and Year: EMW-2010-FH-00740

The Department of Homeland Security required the City to submit semi-annual Federal Financial Reports (FFR). The City submitted the required reports; however, some of the information reported was inaccurate when compared to the accounting records.

The accounting records of the City are maintained on the cash basis of accounting. The Federal Financial Reports submitted indicated that the accrual basis was used for recording transactions related to the grant.

The FFR also reports cumulative totals of the actual cash received and federal fund disbursements as of the reporting period end date. As of reporting period end date of December 31, 2011, the City had not yet received a reimbursement request from the federal agency. As of December 31, 2011, per the FFR, the City erroneously reported cash receipts of \$472,488.74.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The FFR's submitted also reported the same cumulative total for cash receipts and disbursements based upon the Request of Funds submitted. However, the Request of Funds submitted have different reporting periods that do not coincide with the FFR reporting period end date. For example, the FFR reporting end date of June 30, 2012, reported the same \$781,910.36 total for cash receipts and disbursements. That total is the amount of the Request of Funds received for disbursements from August 14, 2011 through January 15, 2012. Thus, the June 30, 2012 FFR did not accurately report the cash disbursements posted from January 15, 2012 to June 30, 2012.

44 CFR § 13.20 Standards for financial management systems states in part:

"(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) *Accounting records.* Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

Noncompliance of the reporting requirement to the program could result in the loss of federal funds to the City.

We recommended that officials ensure that all required reports are prepared on an accurate basis, in accordance with the reporting requirements.

FINDING 2012-21 INTERNAL CONTROLS AND COMPLIANCE OVER SPECIAL TESTS AND PROVISIONS FOR ARRA SPECIAL TESTS – R2 – PRESENTATION ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal Agencies: Department of Housing and Urban Development, Department of Justice, Department of Energy
Federal Program: ARRA – Community Development Block Grant ARRA Entitlement Grants (CDBG-R), ARRA – Lead-Based Paint Hazard Control in Privately Owned Housing, ARRA – Homelessness Prevention and Rapid Re-Housing Program (HPRP), ARRA – Public Safety Partnership and Community Policing Grants, ARRA – Energy Efficiency and Conservation Block Grant (EECBG) Program

CFDA Numbers: 14.253, 14.907, 14.257, 16.710, 81.128

Federal Award Numbers: B-09-MY-18-0005, INLHB041908, SO9-MY-18-0005, 2009RKWX0345, DE-FOA-0000013

The City is required to identify expenditures of Federal awards made under the Recovery Act separately on the Schedule of Expenditures of Federal Awards (SEFA). The City was to label these grants by inclusion of a prefix "ARRA-" to identify the Federal program as Recovery funds. The City did not label any of the Recovery grants as "ARRA" on the SEFA. As a result, the compliance requirement over the special tests and provisions was not met.

The City did not have controls in place to monitor and verify that the SEFA had labeled the Recovery grants as "ARRA". The Finance Department is responsible for preparing the SEFA, based upon the grant information obtained from the accounting records and other information provided by each department. A review of the grant files maintained by the Finance Department determined that the information was available to distinguish "ARRA" grants from the non-ARRA grants. The SEFA is prepared by the Grant Administrator and entered by the Budget Accountant but neither one distinguished the Recovery funds as "ARRA". The City Controller did approve an adjustment to the Schedule of Expenditures of Federal Awards to include the ARRA designation where necessary.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2 CFR § 176.210(b) states:

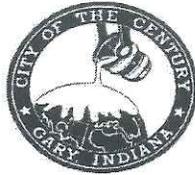
"For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133. OMB Circular A-133 is available at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>. This shall be accomplished by identifying expenditures for Federal awards made under the Recovery Act separately on the SEFA, and as separate rows under Item 9 of Part III on the SF-SAC by CFDA number, and inclusion of the prefix "ARRA-" in identifying the name of the Federal program on the SEFA and as the first characters in Item 9d of Part III on the SF-SAC."

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."

Failure to establish internal controls over and comply with special tests and provisions – R2 – presentation on the Schedule of Federal Expenditures of Federal Awards requirements could enable material noncompliance to go undetected and could result in the loss of federal funds to the City.

We recommended officials establish controls and comply with the special tests and provisions, R2 – presentation on the Schedule of Federal Expenditures of Federal Awards requirements for "ARRA" grants to be distinguished on the SEFA as required by the American Recovery and Reinvestment Act of 2009.



KAREN FREEMAN-WILSON
Mayor

CITY OF GARY
DEPARTMENT OF COMMERCE
DIVISION OF COMMUNITY DEVELOPMENT

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ARLENE D. COLVIN
Director

E. NIKOLE RUMPH
Deputy Director

SUMMARY OF PRIOR AUDIT FINDINGS

FINDING NO.2011-02 – REPORTING

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: ARRA Homelessness Prevention and Rapid Re-Housing Program
CFDA Number: 14.257
Award Numbers: S09-MY-18-0005
Auditee Contact Person: Arlene Colvin
Title of Contact Person: Director

Response: The City concurs with the finding and the following action has been taken to improve the situation. Appropriate staff participated in grants management training to assist in the development of internal controls and procedures in this area. Those internal controls and procedures have been incorporated into a new fiscal policies and procedures manual for the Community Development Department. Now, when submitting the department's quarterly financial reports, draw downs are reconciled to the city's financial ledger (RDS). Timing differences, as well as differences between entries in IDIS and RDS are explained in notes. Where quarterly reports must be submitted based on financial information provided by Subrecipients, Subrecipients are now required to submit a quarterly reconciliation report. Quarterly expenditure documentation is analyzed and reconciled with draw downs for the quarter. These improvements should ensure that the standards for accurate financial reporting as prescribe under 24 CFR85.20 are met.


Arlene Colvin, Director


Date



KAREN FREEMAN-WILSON
Mayor

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ARLENE D. COLVIN
Director

E. NIKOLE RUMPH
Deputy Director

SUMMARY OF PRIOR AUDIT FINDINGS

FINDING NO.2011-04 - ALLOWABLE COSTS

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: ARRA Homelessness Prevention and Rapid Re-Housing Program
CFDA Number: 14.257
Award Numbers: S09-MY-180005
Auditee Contact Person: Arlene Colvin
Title of Contact Person: Director

Response: A new contract review process was implemented in the Department under the direction of the Deputy Director. Additionally, new fiscal, compliance and procurement policies and procedures were developed that will ensure that contracts are properly monitored.


Arlene Colvin, Director

04/11/13
Date



KAREN FREEMAN-WILSON
Mayor

CITY OF GARY
DEPARTMENT OF COMMERCE

-89-

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E. NIKOLE KUMPH
Deputy Director

SUMMARY OF PRIOR AUDIT FINDINGS

FINDING NO.2011-05 – REPORTING

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: HOME Investment Partnerships Program, Community Development Block Grants/Entitlement Grants
CFDA Number: 14.239, 14.218
Award Numbers: M-11-MC-180203; B-11-MC-18006
Auditee Contact Person: Arlene Colvin
Title of Contact Person: Director

Response: New fiscal and compliance policies and procedures were implemented in the Department. All sub-grant awards are reported in accordance with the Federal Funding and Accountability Act. The fiscal division now appropriately records the award at the time that the Department enters into contract with the sub-grantee. The HOME manager records sub-grant awards for recipients of HOME dollars.


Arlene Colvin, Director


Date



KAREN FREEMAN-WILSON
Mayor

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ARLENE D. COLVIN
Director

E. NIKOLE RUMPH
Deputy Director

SUMMARY OF PRIOR AUDIT FINDINGS

FINDING NO.2011-06 – SUBRECIPIENT MONITORING

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: HOME Investment Partnerships Program
CFDA Number: 14.239
Award Number: M-05-180203
Auditee Contact Person: Arlene Colvin
Title of Contact Person: Director

Response: This finding has been corrected. The sub-recipient's audit report was submitted.


Arlene Colvin, Director


Date



KAREN FREEMAN-WILSON
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Director

E. NIKOLE RUMPH
Deputy Director

SUMMARY OF PRIOR AUDIT FINDINGS

FINDING NO.2011-07 – CASH MANAGEMENT

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grant/Entitlement Grants (NSP 1)
CFDA Number: 14.218
Award Number: B-08-MN-18-005
Auditee Contact Person: Arlene Colvin
Title of Contact Person: Director

Response: The Redevelopment Department does not directly submit claims to the Finance Department. The Community Development Department resumed oversight of the payment process for the demolition program. Demolition claims for payment are submitted to this department. They are reviewed and approved by fiscal staff, then reviewed by compliance staff to ensure eligibility. After these reviews, the claims are sent to the Finance Department for payment. There is no longer a lag time between receipt and disbursement as a result of these internal controls having been implemented.


Arlene Colvin, Director


Date



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KAREN M. FREEMAN

Mayor

B.R. LANE

Deputy Mayor

M. CELITA GREEN

Director of Finance

MICHELE ROBY

Chief Accountant

SUMMARY OF PRIOR AUDIT FINDINGS

Section III- Federal Awards Findings and Questioned Costs

FINDING NO.2011-08- Earmarking

Federal Agency: U.S. Department of Energy

Federal Program: Energy Efficiency and Conservation Block Grant Program

CFDA Number: 81.128

Award Numbers: DE-FOA-0000013

Auditee Contact Person: Lauren Riga

Title of Contact Person: Director of Green Urbanism

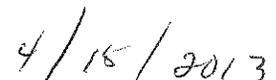
Phone Number: (219) 882-3000

Response: The City concurs with the finding and the following action has been taken to improve the situation. In January 2012, there was a change in administration. The newly elected Mayor appointed Lauren Riga as the Director of Green Urbanism Department formerly known as Environmental Affairs department.

To ensure better oversight of the Federal awards, management assigned a consultant firm with adequate technical training and proficiency to correct the administrative expense information that was setup improperly in the computer system. The information in the system has been updated, corrected and reporting accurately.

The City has taken the proper care to ensure fiscal and programmatic accountability of federal and state awarded to the City is with efficiency and effectiveness.


M. Celita Green, Director of Finance


Date



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KAREN M. FREEMAN

Mayor

B.R. LANE

Deputy Mayor

M. CELITA GREEN

Director of Finance

MICHELE ROBY

Chief Accountant

SUMMARY OF PRIOR AUDIT FINDINGS

Section III- Federal Awards Findings and Questioned Costs

FINDING NO.2011-09- Reporting

Federal Agency: U.S. Department of Energy

Federal Program: Energy Efficiency and Conservation Block Grant Program

CFDA Number: 81.128

Award Numbers: DE-FOA-0000013

Auditee Contact Person: Lauren Riga

Title of Contact Person: Director of Green Urbanism

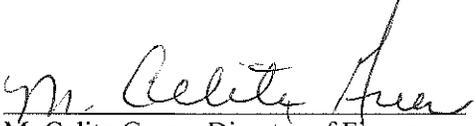
Phone Number: (219) 882-3000

Response: The City concurs with the finding and the following action has been taken to improve the situation. In January 2012, there was a change in administration. The newly elected Mayor appointed Lauren Riga as the Director of Green Urbanism Department formerly known department as Environmental Affairs.

To ensure better oversight of the Federal awards, management assigned a contractual firm with adequate technical training and proficiency to manage the fiscal and reporting of the energy grant.

Quarterly reports are prepared and submitted in a timely matter as required. In addition, the agency participated in the grant management initiative which included the implementation of the policy and procedure of grant awarded to the City.

The City has taken the proper care to ensure fiscal and programmatic accountability of federal and state awarded to the City is with efficiency and effectiveness.


M. Celita Green, Director of Finance

4/15/2013
Date

Attachments:



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Department of Finance

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KAREN M. FREEMAN-WILSON
Mayor

M. CELITA GREEN
Director of Finance

MICHELE ROBY
Chief Accountant

CORRECTIVE ACTION

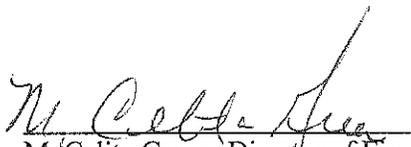
FINDING NO. 2012-1 INTERNAL CONTROLS OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Auditee Contact Person: M. Celita Green
Title of Contact Person: Director of Finance
Telephone No: (219) 881-1363

The City implemented policies in 2012 regarding grant procedures and processes for reporting and submitting information to the Finance Department for the SEFA. However, there appears to be further training needed to assist departments in obtaining the correct information to report.

Consequently, the City has consulted with Crowe Horwath to discuss the preparation of the SEFA, as well as, all audit findings that relate to federal grant administration and reporting, and internal controls and compliance.

We expect that our joint efforts with Crowe Horwath will allow the City to be better able to centralize some of the grant processes and refine grant procedures to enforce and monitor with greater efficiency.


M. Celita Green, Director of Finance

8/29/13
Date



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KAREN M. FREEMAN-WILSON
Mayor

M. CELITA GREEN
Director of Finance

MICHELE ROBY
Chief Accountant

CORRECTIVE ACTION

FINDING NO. 2012-2 INTERNAL CONTROLS OVER BANK RECONCILEMENTS

Auditee Contact Person: M. Celita Green
Title of Contact Person: Director of Finance
Telephone No: (219) 881-1363

The following responses and actions will be taken to improve the reconciliation process:
The City concurs with the findings and recommendations. The City Finance Department is designating new roles and responsibilities for different staff members of the department. As part of the allocation of duties, the bank statement will be reassigned to a different person. The realignment will ensure that the bank statements are reconciled accurately and on a timely basis. The Chief Accountant will be responsible for reviewing and signing off on the reconciler's bank reconciliation monthly and ensure all supportive documentation are attached.

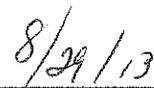
The posting of a combination of two receipts from two periods was an oversight. The problem was rectified at the beginning of this year. However, to ensure better oversight, the Chief Accountant will verify that all transactions are posted to the general ledger in a timely manner. A Senior Accountant will take over the duties of reconciling the bank statement.

Occasionally, funds are transferred into the City accounts without an adequate description.. If agencies fail to submit drawdown request documentation to the Finance department prior to the drawdown, there is a delay in identifying and recording the funds to the correct account. We have established written policies and procedures related to grant draw downs and reimbursements. However, since implementation, we continue to experience some problems with communications. The City has consulted with Crowe Horwath to assist in rectifying these deficiencies, as well as other grant audit exceptions identified in this audit.

The financial system investment module is used to monitor our saving, investment, money markets, etc accounts. All un-reconciled items will be cleared up in appropriate time.

The Finance Department sought approval from the Redevelopment Board regarding the handling of a TIF account that had been adjusted by the Auditor's Office, which resulted in a shortage of other TIF accounts. The approval received was not timely in resolving the matter. In the future, financial matters of this sort will be resolved in the Finance department.


M. Celita Green, Director of Finance


Date



City Of Gary

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Director of Finance

MICHELE ROBY

Chief Accountant

CORRECTIVE ACTION

FINDING NO. 2012-3. INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE CDBG-ENTITLEMENT GRANT CLUSTER

Federal Agency: U.S. Department of Housing and Urban Development

Federal Programs: Community Development Block Grants/Entitlement Grants, Neighborhood Stabilization Program (NSP 1) and (NSP-3)

CFDA Number: 14.218

Award Number: B-12-MC-18-0005; B-08-MN-18-005; B-11-MN-18-005

Auditee Contact Person: Arlene Colvin

Title of Contact Person: Director

Phone Number: 219-881-5075

The City concurs with the findings and recommendations. Briefly describe actions to be taken to correct findings:

1. Equipment and Real Property: Corrective Action: The Department of Community Development will create a Purchase/Redemption Form to be completed upon the acquisition/disposition of capital assets (including real property). This form will include the date of acquisition/disposition, the fund number and the amount of purchase, and a description of assets. The manager of the division for which the property is acquired or disposed will submit the Purchase/Redemption Form to the Internal Auditor in the Finance Department. At the end of the year, the Fiscal Manager will reconcile the inventory of equipment and real property with the Finance Department. The Finance Department will perform physical annual inventory of equipment.

2. Procurement, Suspension and Debarment: Corrective Action: The Housing Services Division/Construction Services Division of the Community Development Department will use the Case File Checklist that ensures that proper supporting documentation is included in each case file. The checklist will be initialed by the person receiving documentation and to assure that the checklist is properly completed and the case file is complete, the manager of the appropriate division will review the file and sign the checklist, verifying that all necessary documentation is in each case file.

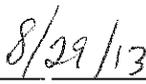
3. Suspension and Debarment: The Department of Community Development has implemented a procedure to inform all sub-recipients of the requirement to register on SAM.gov to verify suspension or debarment status. All contracts with sub-recipients will include the suspension and debarment clause and a search will be conducted at the SAM.gov website to determine suspension and debarment status before contracts are awarded to sub-recipients. All sub-recipients have also been informed that the suspension or debarment status of any vendor they

will be utilizing for contracts funded with CDBG dollars should be checked at the SAM.gov website and the suspension and debarment clause should be included in these contracts.

We are certain that the corrective actions taken will eliminate potential risk of jeopardizing future federal funds



M. Celita Green, Director of Finance



Date



City Of Gary

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M. CELITA GREEN
Director of Finance

MICHELE ROBY
Chief Accountant

CORRECTIVE ACTION

**FINDING NO. 2012-04 INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS
THAT HAVE A DIRECT AND MATERIAL EFFECT TO ARRA – LEAD-BASED PAINT
HAZARD CONTROL IN PRIVATELY-OWNED HOUSING**

Federal Agency: U.S. Department of Housing and Urban Development
Federal Programs: ARRA – Lead-Based Paint Hazard Control in Privately-Owned Housing
CFDA Number: 14.907
Award Number: INLHB041908
Auditee Contact Person: Arlene Colvin
Title of Contact Person: Director
Phone Number: 219-881-5075

The City concurs with the findings and recommendations. Briefly describe actions to be taken to correct findings:

1. Cash Management:
The ARRA – Lead-Based Paint Hazard Control in Privately-Owned Housing grant is closed. Should a future grant be awarded, and in connection with existing grants, the Fiscal Manager of the Department shall do a quarterly assessment which compares appropriation levels with projected needs. This assessment shall be distributed to appropriate management and project members to ensure that funds are properly monitored.
2. Davis-Bacon Act:
The ARRA – Lead-Based Paint Hazard Control in Privately-Owned Housing grant is closed. A provision requiring compliance with the Davis-Bacon Act has been added to all current construction contracts and would be a part of any contracts that might be awarded under a future grant, should one be awarded.
3. Eligibility:
The ARRA – Lead-Based Paint Hazard Control in Privately-Owned Housing grant is closed. However, should a future grant be awarded, and where current grants programs require the meeting of eligibility criteria, completed worksheets will be maintained in project files with staff sign-offs as appropriate. Program managers will verify that documentation is complete with a final sign-off.

4. Matching and Reporting:

The ARRA – Lead-Based Paint Hazard Control in Privately-Owned Housing grant is closed. However, where matching and reporting requirements must be met on current grants and on future ones should they be awarded, the Fiscal Division shall maintain appropriate supporting documentation. The Fiscal Manager shall verify match requirements on a quarterly basis and shall retain documentation to support the verification. Program managers shall be responsible for monitoring and completing reporting requirements and shall maintain appropriate documentation

5. Period of Availability:

The ARRA – Lead-Based Paint Hazard Control in Privately-Owned Housing grant is closed. However, in the future, the Fiscal Manager and the appropriate program manager shall coordinate spending and activities to ensure that grant funds are obligated within the period of availability.

6. Procurement and Suspension and Debarment:

The ARRA – Lead-Based Paint Hazard Control in Privately-Owned Housing grant is closed. However, as it relates to current and future grants, checklists will be initialed by the person receiving documentation and program managers now have responsibility for final sign-off on all file documentation.

The Department's Fiscal Operations and Program Monitoring Manual will be revised to include additional provisions relating to internal controls and segregation of duties to ensure that proper oversight and review are accomplished.

We are certain that the corrective actions taken will eliminate potential risk of losing future federal funds


M. Celita Green, Director of Finance


Date



City Of Gary

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M. CELITA GREEN

Director of Finance

MICHELE ROBY

Chief Accountant

CORRECTIVE ACTION

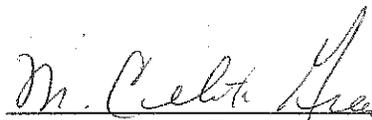
**FINDING 2012-05 COMPLIANCE OVER CASH MANAGEMENT REQUIREMENT
RELATED TO ARRA – LEAD-BASED PAINT HAZARD CONTROL IN PRIVATELY-
OWNED HOUSING**

Federal Agency: U.S. Department of Housing and Urban Development
Federal Programs: ARRA – Lead-Based Paint Hazard Control in Privately-Owned Housing
CFDA Number: 14.907
Award Number: INLHB041908
Auditee Contact Person: Arlene Colvin
Title of Contact Person: Director
Phone Number: 219-881-5075

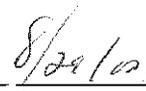
The City concurs with the findings and recommendations. Briefly describe actions to be taken to correct findings:

The ARRA – Lead-Based Paint Hazard Control in Privately-Owned Housing grant is closed. However, in the future, the Fiscal Manager and the appropriate program manager shall coordinate spending and activities to ensure that grant funds are so as to minimize the time lapse between receipt and expenditure of federal funds. Funds will only be drawn for current expenditures.

We are certain that the corrective actions taken will eliminate potential risk of losing future federal funds



M. Celita Green, Director of Finance



Date



City Of Gary

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Director of Finance

MICHELE ROBY
Chief Accountant

CORRECTIVE ACTION

**FINDING 2012-06 COMPLIANCE OVER DAVIS-BACON ACT REQUIREMENT
RELATED TO ARRA – LEAD-BASED PAINT HAZARD CONTROL IN PRIVATELY-
OWNED HOUSING**

Federal Agency: U.S. Department of Housing and Urban Development
Federal Programs: ARRA – Lead-Based Paint Hazard Control in Privately-Owned Housing
CFDA Number: 14.907
Award Number: INLHB041908
Auditee Contact Person: Arlene Colvin
Title of Contact Person: Director
Phone Number: 219-881-5075

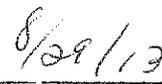
The City concurs with the findings and recommendations. Briefly describe actions to be taken to correct findings:

The ARRA – Lead-Based Paint Hazard Control in Privately-Owned Housing grant is closed. A provision requiring compliance with the Davis-Bacon Act has been added to all current construction contracts and would be a part of any contracts that might be awarded under a future grant, should one be awarded. Additionally, the Construction Services Division/Housing Services Division will ensure that all certified payrolls submitted by contractors are duly signed by having the documentation received from the contractor reviewed and initial by a staff person and the manager of the division signing off in approval.

We are certain that the corrective actions taken will eliminate potential risk of losing future federal funds



M. Celita Green, Director of Finance



Date



City Of Gary

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Director of Finance

MICHELE ROBY
Chief Accountant

CORRECTIVE ACTION

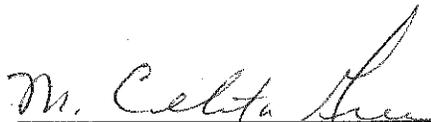
**FINDING 2012-07 COMPLIANCE OVER MATCHING AND REPORTING
REQUIREMENT RELATED TO ARRA – LEAD-BASED PAINT HAZARD CONTROL IN
PRIVATELY-OWNED HOUSING**

Federal Agency: U.S. Department of Housing and Urban Development
Federal Programs: ARRA – Lead-Based Paint Hazard Control in Privately-Owned Housing
CFDA Number: 14.907
Award Number: INLHB041908
Auditee Contact Person: Arlene Colvin
Title of Contact Person: Director
Phone Number: 219-881-5075

Briefly describe actions to be taken to correct findings:

The ARRA – Lead-Based Paint Hazard Control in Privately-Owned Housing grant is closed. Even though no documentation was provided to the auditors, we believe that both the matching and reporting requirements were met under the grant. In the future, and under current grants, where there are match and reporting requirements, the Fiscal Manager and the Compliance Manager, as appropriate, will monitor and document match requirements and will retain copies of all reports.

We are certain that the corrective actions taken will eliminate potential risk of losing future federal funds.



M. Celita Green, Director of Finance



Date



City Of Gary

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M. CELITA GREEN

Director of Finance

MICHELE ROBY

Chief Accountant

CORRECTIVE ACTION

**FINDING 2012-08 INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT
HAVE A DIRECT AND MATERIAL EFFECT TO THE HOME INVESTMENT
PARTNERSHIPS PROGRAM**

Federal Agency: U.S. Department of Housing and Urban Development

Federal Programs: HOME Investment Partnerships Programs

CFDA Number: 14.239

Award Number: M-12-MC-18-203

Auditee Contact Person: Arlene Colvin

Title of Contact Person: Director

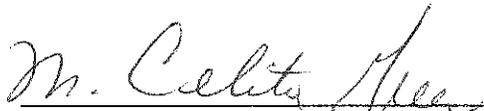
Phone Number: 219-881-5075

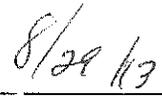
The City concurs with the findings and recommendations. Briefly describe actions to be taken to correct findings:

1. Eligibility:
Eligibility determinations will now be reviewed and approved by management to ensure that final approval is not provided by the person who makes the initial determination. This final determination will be documented in appropriate files.
2. Suspension and Debarment:
Staff of the department did not know that the suspension and debarment requirements applied to CHDOs. In the future, all contracts with CHDOs will include the suspension and debarment clause and a search will be conducted at the SAM.gov website to determine suspension and debarment status before contracts are awarded to them. All CHDOs have also been informed that the suspension or debarment status of any vendor they will be utilizing for contracts funded with HOME dollars should be checked at the SAM.gov website and the suspension and debarment clause should be included in these contracts as well.
3. Reporting:
All reports will now be prepared by staff and reviewed by management to ensure segregation of duties. Such reports shall be retained in the files.

4. Special Tests and Provisions – Maximum Per Unit Subsidy:
Maximum per unit subsidy information will be maintained in the files. Project expenditures will be monitored to ensure that the maximum is not exceeded. This assessment shall be documented in project files.

We are certain that the corrective actions taken will eliminate potential risk of losing future federal funds.


M. Celita Green, Director of Finance


Date



City Of Gary

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M. CELITA GREEN
Director of Finance

MICHELE ROBY
Chief Accountant

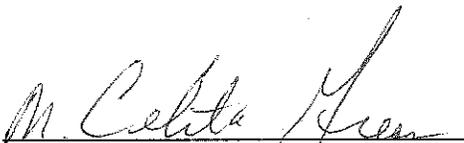
CORRECTIVE ACTION

FINDING 2012-09 COMPLIANCE OVER REPORTING REOUIREMENTS RELATED TO HOME INVESTMENT PARTNERSHIPS PROGRAM

Federal Agency: U.S. Department of Housing and Urban Development
Federal Programs: HOME Investment Partnerships Programs
CFDA Number: 14.239
Award Number: M-12-MC-18-203
Auditee Contact Person: Arlene Colvin
Title of Contact Person: Director
Phone Number: 219-881-5075

The City concurs with the findings and recommendations. Briefly describe actions to be taken to correct findings: The Construction Services Division, Compliance Division and HOME Division have participated in training relating to Section 3 requirements. In the future, reports will provide the required documentation needed to support the numbers contained in the report.

We are certain that the corrective actions taken will eliminate potential risk of losing future federal funds.


M. Celita Green, Director of Finance


Date



City Of Gary

Department of Finance

401 Broadway
Gary, Indiana 46402
(219) 881-1363 / Fax (219) 881-1340

KAREN M. FREEMAN -WILSON

Mayor

M. CELITA GREEN

Director of Finance

MICHELE ROBY

Chief Accountant

CORRECTIVE ACTION

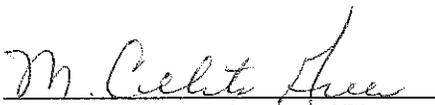
FINDING 2012-10 COMPLIANCE OVER SPECIAL TEST AND PROVISIONS - MAXIMUM PER UNIT SUBSIDY REQUIREMENT RELATED TO HOME INVESTMENT PARTNERSHIPS PROGRAM

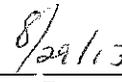
Federal Agency: U.S. Department of Housing and Urban Development
Federal Programs: HOME Investment Partnerships Programs
CFDA Number: 14.239
Award Number: M-12-MC-18-203
Auditee Contact Person: Arlene Colvin
Title of Contact Person: Director
Phone Number: 219-881-5075

The City concurs with the findings and recommendations. Briefly describe actions to be taken to correct findings:

Maximum per unit subsidy information for 2010, 2011 and 2012, the years covered under this review have been provided.. In the future, this information will be maintained in the appropriate project file. Calculations will be made to ensure that the subsidy is not exceeded and will be documented in the appropriate file.

We are certain that the corrective actions taken will eliminate potential risk of jeopardizing future federal funds.


M. Celita Green, Director of Finance


Date



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KAREN M. FREEMAN-WILSON

Mayor

M. CELITA GREEN

Director of Finance

MICHELE ROBY

Chief Accountant

CORRECTIVE ACTION

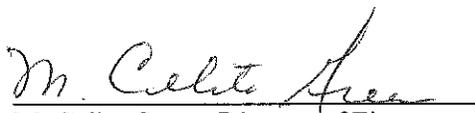
FINDING 2012-11 INTERNAL CONTROLS AND COMPLIANCE OVER COSTS RELATED TO ARRA – HOMELESSNESS PREVENTION AND RAPID RE-HOUSING PROGRAM (HPRP)

Federal Agency: U.S. Department of Housing and Urban Development
Federal Programs: ARRA – Homelessness Prevention and Rapid Re-Housing Program
CFDA Number: 14.257
Award Number: S09-MY-18-0005
Auditee Contact Person: Arlene Colvin
Title of Contact Person: Director
Phone Number: 219-881-5075

The City concurs with the findings and recommendations. Briefly describe actions to be taken to correct findings:

The HPRP grant is closed. The Department has implemented a policy to make direct payments to vendors and has removed the reimbursement clause from contracts with sub-recipients in order to ensure that this problem does not arise in the future. This policy was put into place in 2012, and will be adhered to closer going forth.

We are certain that the corrective actions taken will eliminate potential risk of losing future federal funds.


M. Celita Green, Director of Finance


Date



City Of Gary

Department of Finance

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M. CELITA GREEN

Director of Finance

MICHELE ROBY

Chief Accountant

CORRECTIVE ACTION

**FINDING 2012-12 INTERNAL CONTROLS OVER PERIOD OF AVAILABILITY RELATED TO
ARRA – HOMELESSNESS PREVENTION AND RAPID RE-HOUSING PROGRAM (HPRP)**

Federal Agency: U.S. Department of Housing and Urban Development
Federal Programs: ARRA – Homelessness Prevention and Rapid Re-Housing Program
CFDA Number: 14.257
Award Number: S09-MY-18-0005
Auditee Contact Person: Arlene Colvin
Title of Contact Person: Director
Phone Number: 219-881-5075

The City concurs with the findings and recommendations. Briefly describe actions to be taken to correct findings:

The Department of Community Development will implement a procedure where the Fiscal Manager, on a quarterly basis, will check the availability of funds (IDIS Report PR-56 CDBG Timeliness Report for Period of Availability) and coordinate spending with project managers. This process will be used to monitor the flow of spending and to ensure departmental adherence to spending deadlines. Implementing this procedure should assure that the department meets expenditure deadlines and that there will not be a need to recapture funds.

We are certain that the corrective actions taken will eliminate potential risk of losing future federal funds.

M. Celita Green, Director of Finance

Date



City Of Gary

KAREN M. FREEMAN-WILSON

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M. CELITA GREEN

Director of Finance

MICHELE ROBY

Chief Accountant

CORRECTIVE ACTION

FINDING 2012-13 INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT THE PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS

Federal Agency: U.S. Department of Justice

Federal Programs: Public Safety Partnership and Community Policing Grant, ARRA-Public Safety Partnership and Community Policing Grants

CFDA Number: 16.710

Award Number: 2004CKWX0085, 2005CKWX0024, 2009RKWX0345

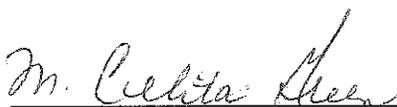
Auditee Contact Person: Gloria Lowe-Walker

Title of Contact Person: Director of Police Supportive Services

Phone Number: 219-881-1384

The City concurs with the findings and recommendations. This Corrective Action Plan has been prepared to address and remediate the internal control issues of the Gary Police Department.

1. The department will use the ledger disbursement report for receipts or disbursements to ensure that the grant fund and budget amounts are reconciled.
2. The individually prepared tables and associated calculation tapes will be retained as part of the supporting document to validate financial status reports, requests for fund draw-downs, progress reports and other reports as requested by the grantor or the finance office of the City of Gary. Reports will be reviewed and approved by the Chief prior to submission to the grantor.
3. Reports prepared for submission will be submitted to the Chief of Police or his designee for review and signature prior to the online submission of that report. The signed document will be maintained as part of the supporting documentation and resource information confirming the information for this report.



M. Celita Green, Director of Finance



Date



City Of Gary

KAREN M. FREEMAN-WALKER Department of Finance

Mayor

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M. CELITA GREEN

Director of Finance

MICHELE ROBY

Chief Accountant

CORRECTIVE ACTION

FINDING 2012-14 COMPLIANCE OVER CASH MANAGEMENT REQUIREMENTS THAT RELATED TO THE PUBLIC SAFETY AND COMMUNITY POLICING GRANTS

Federal Agency: U.S. Department of Justice

Federal Programs: Public Safety Partnership and Community Policing Grant, ARRA-Public Safety Partnership and Community Policing Grants

CFDA Number: 16.710

Award Number: 2005CKWX0024, 2009RKWX0345

Auditee Contact Person: Gloria Lowe-Walker

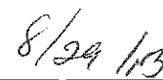
Title of Contact Person: Director of Police Supportive Services

Phone Number: 219-881-1384

The City concurs with the findings and recommendations and the following initiatives will be taken:

1. Compliance requirements related to grant management, including, but not limited to, a copy of the fully executed application, supporting documentation for reimbursements and or draw-downs, copies of all required reports and correspondence, will be maintained by appropriate staff.
2. Internal reports and source documents that support grant compliance and requirements will be developed, implemented and maintained by Administrative staff of the Gary Police Department for the time period noted in the Grant Application Instructions Manual.
3. Grant funds in the form of reimbursements and or advances will be monitored to insure that funds will be encumbered, expended and or paid out within the designated time period as noted in the grant award document


M. Celita Green, Director of Finance


Date



City Of Gary

KAREN M. FREEMAN-WILSON
Mayor

Department of Finance

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M. CELITA GREEN
Director of Finance

MICHELE ROBY
Chief Accountant

CORRECTIVE ACTION

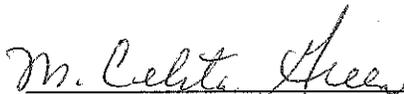
FINDING 2012-15 COMPLIANCE OVER REPORTING REQUIREMENTS THAT RELATED TO THE PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS

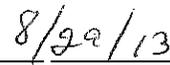
Federal Agency: U.S. Department of Justice
Federal Programs: Public Safety Partnership and Community Policing Grant, ARRA-Public Safety Partnership and Community Policing Grants
CFDA Number: 16.710
Award Number: 2005CKWX0024, 2009RKWX0345
Auditee Contact Person: Gloria Lowe-Walker
Title of Contact Person: Director of Police Supportive Services
Phone Number: 219-881-1384

The City concurs with the findings and recommendations and the following initiatives will be taken:

Ongoing grant balances and supporting documentation for payroll and or general budget items will be maintained by the individual administrative staff person with that specific responsibility.

Monthly reports will be prepared and submitted to the Director of Administrative Services for reconciliation, by his/her designee with the information requested from the Finance Office for the Gary Police Department.


M. Celita Green, Director of Finance


Date



Karen Freeman-Wilson
Mayor

CITY OF GARY
Department of Green Urbanism

839 Broadway, Suite N206
Gary, Indiana 46402
(219) 882-3000 Fax (219) 882-3012

Lauren Riga
Director

B.R. Lane
Chief of Staff

CORRECTIVE ACTION

FINDING 2012-16: INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT

Federal Agency: US Department of Energy
Federal Program: Energy Efficiency and Conservation Block Grant Program (EECBG)
CFDA Number: 81.128
Federal Award No.: DE-FOA-0000013
Auditee Contact Person: Brenda Scott-Henry

The City concurs with the finding and recommendations. Of the findings identified in cash management, earmarking, suspension and debarment, and reporting, the following corrective actions:

1. Cash Management. The department made cash draw-downs based upon receipt of invoices from vendors. This process ensured staff would only draw downs funds necessary to cover immediate expenses. In the future, the department will:
 - a. Establish a budget schedule aligning expected expenses with milestones to monitor timeliness of deliverables.
 - b. Verify approved budget and maintain an executed copy internally.
2. Earmarking. The former director compensation should have been a programmatic expense rather than an administrative expense. Current staff worked with DOE to make the appropriate corrections of moving the director's compensation from administrative to technical consultation causing administrative cost to fall significantly below the 10 percent cap.
 - a. Provide copy of quarterly financial reports to finance department for review showing allocations for both administrative and program expenses.
3. Suspension and Debarment. To appropriately monitor contractors, the City will identify a monitoring specialist responsible for the evaluation and monitoring contractors' activities in accordance with the contractual agreement inclusive of Suspension and Debarment requirements.

4. Reporting. The City hired the federal reporting contractor, Fedarra to prepare all required reports (Performance and Financial Quarterly Report and the ARRA report) for submission to DOE. Staff provided Fedarra with expense records prepared by Finance Department, and conducted phone interviews on program performance activities. Upon completion of reports, by reporting contractor, the current director was notified to reviewed and approve report for submittal. The corrective actions are as follows:
- a. Devise a report approval form with signatures for preparer and director
 - b. Provide copies of reports to finance department or grant management department for review and record keeping.

We are certain that the corrective actions taken will eliminate potential risk of losing future federal funds


M. Celita Green, Director of Finance


Date



Karen Freeman-Wilson
Mayor

CITY OF GARY
Department of Green Urbanism

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Lauren Riga
Director

B.R. Lane
Chief of Staff

CORRECTIVE ACTION

**FINDING 2012-17: COMPLIANCE OVER SUSPENSION AND DEBARMENT
REQUIREMENTS RELATED TO THE ENERGY EFFICIENCY AND CONSERVATION
BLOCK GRANT PROGRAM**

Federal Agency: U.S. Department of Energy
Federal Program: Energy Efficiency and Conservation Block Grant Program (EECBG)
CFDA Number: 81.128
Federal Award No.: DE-FOA-0000013
Auditee Contact Person: Brenda Scott-Henry

The City disagrees with the finding. The finding citing better compliance is questionable. There is no supporting evidence of any of the City's contractor or subcontractor being listed on the suspension and debarment website (SAM.gov). The finding stems from a lack of documentation regarding the awarding of contracts and the bidding process. The following steps have already been acted upon to ensure we have better controls in place going forwards:

1. Each BID packet includes a request for additional documented proof that any contractor, subcontractor, or assigned vendor is eligible for participation (not debarred or suspended) consistent with 10 CFR 600.235.
2. Once awarded, each contract used going forward will include the following:
"____ By initialing here, you hereby certify that your organization is currently eligible to receive contracts and, further, that your organization is not suspended or debarred."



M. Celita Green, Director of Finance

8/24/13

Date



City Of Gary

Department of Finance

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KAREN M. FREEMAN
Mayor

M. CELITA GREEN
Director of Finance

MICHELE ROBY
Chief Accountant

CORRECTIVE ACTION

FINDING NO. 2012-18, INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE ASSISTANCE TO FIREFIGHTERS GRANTS

Federal Agency: Department of Homeland Security
Federal Programs: Assistance to Firefighters Grant
CFDA Number: 97.044
Federal Award Number: EMW-2010-FH-00740
Auditee Contact Person: Darryl Smith
Title of Contact Person: Deputy Chief
Phone Number: 219-881-1384

The City concurs with the finding and recommendations and the following initiatives will be taken to implement controls and procedures for reporting:

1. All un-allowable disbursement posted to the Firefighter SAFER Grant Fund 812 will be reclassified to the appropriate fund to ensure the grant budget and reporting are accurately reflected..
2. A designated person will be appointed to prepare and submit the required reports. An authorized staff member will be assigned to review and approve the reports prior to submission to the funding source.
3. To ensure better oversight, one individual will take over the duties of preparing and submitting the reports to the agency. An authorized employee will verify and approve that all transactions are accurately reported and submitted in a timely manner to the funding source.

We are certain that the corrective actions taken will eliminate potential risk of jeopardizing future federal funds



M. Celita Green, Director of Finance



Date



City Of Gary

KAREN M. FREEMAN-WILSON
Mayor

Department of Finance

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M. CELITA GREEN
Director of Finance

MICHELE ROBY
Chief Accountant

CORRECTIVE ACTION

FINDING NO. 2012-19 COMPLIANCE OVER ACTIVITIES ALLOWED/ALLOWABLE COSTS REQUIREMENTS RELATED TO THE ASSISTANCE TO FIREFIGHTERS GRANTS

Federal Agency: Department of Homeland Security
Federal Programs: Assistance to Firefighters Grant
CFDA Number: 97.044
Federal Award Number: EMW-2010-FH-00740
Auditee Contact Person: Darryl Smith
Title of Contact Person: Deputy Fire Chief
Phone Number: 219-881-1384

The City concurs with the findings and recommendations and the following initiatives will be taken to implement controls and procedures for reporting:

1. In preparing the reimbursement request, a report was requested from the Finance Department. This itemized report showed the salaries and benefits cost incurred and paid by the city. Unemployment and workmen's compensation costs were included on the report, although there were no such expenses on the general ledger, which was subsequently identified by the programmers of the financial system as a glitch. The glitch was corrected and only affected the first financial report. The total amount of the unemployment and workmen's comp claimed on the Request for Funds will be investigated to and the Financial Report amended for the correction.
2. The pay periods requested in the report did not match the pay dates covered by the reimbursement request. Reimbursement will be requested for the period omitted. Request for reimbursement will be examined and approved by authorized personnel to ensure all transactions are included on the report for reimbursement.
3. The check dates requested in the report did not include the pay period covered by the reimbursement request. Reimbursement will be requested for the period omitted. Request for Funds will be monitored and approved for accuracy and to ensure all reimbursable amounts are claimed within the correct reporting period.
4. The funding period for this grant is now over. Reimbursement transactions will be monitored to assure reconciliation of expenditures.

5. Reimbursement was only requested for approved personnel listed on the SAFER-funded roster. The two new hires were being paid from the general fund-290 and not the SAFER grant. The proper procedures were taken to allow the two firefighters to be added to the SAFER grant. A designated staff member will be appointed to monitor the activities and transactions of the grant to ensure compliance of eligible personnel and cost of the grant.

6. The grant guidance was not clear if these were reimbursable expenses. Uniforms and training cost posted to the Firefighter SAFER Grant Fund 812 will be reclassified to the appropriate fund to ensure the grant budget is in accordance to the City's budget.

We are certain that the corrective actions taken will eliminate potential risk of losing future federal funds



M. Celita Green, Director of Finance



Date



City Of Gary

KAREN M. FREEMAN-WILSON
Mayor

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M. CELITA GREEN
Director of Finance

MICHELE ROBY
Chief Accountant

CORRECTIVE ACTION

FINDING NO. 2012-20 COMPLIANCE OVER REPORTING REQUIREMENTS RELATED TO THE ASSISTANCE TO FIREFIGHTERS GRANTS

Federal Agency: Department of Homeland Security
Federal Programs: Assistance to Firefighters Grant
CFDA Number: 97.044
Federal Award Number: EMW-2010-FH-00740
Auditee Contact Person: Daryl Smith
Title of Contact Person: Deputy Fire Chief
Phone Number: 219-881-1384

The City concurs with the findings and recommendations and the following initiatives will be taken to implement controls and procedures for reporting:

The Federal Financial Reporting (FFR) will be updated to indicate that the City is on cash basis of accounting and not accrual basis of accounting.

To assure accurate reporting on the FFR, a designated employee will be assigned by the Fire Department and will be responsible for comparing each transaction against the City general ledger system to verify that all transactions have been recorded accurately for the semiannual Federal Financial Report. In addition, ensure all cash disbursement amount reported on the FFR coincide to the correct reporting periods.

We are certain that the corrective actions taken will eliminate potential risk of losing future federal funds


M. Celita Green, Director of Finance


Date



City Of Gary

Department of Finance

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KAREN M. FREEMAN-WILSON
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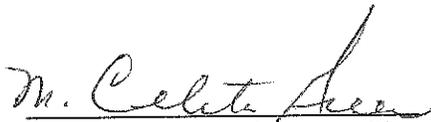
MICHELE ROBY
Chief Accountant

CORRECTIVE ACTION

FINDING NO. 2012-21 INTERNAL CONTROLS COMPLIANCE OVER SPECIAL TESTS AND PROVISIONS FOR ARRA SPECIAL TESTS -R2 PRESENTATION ON THE SCHEDULE OF EXPENDITURES FOR FEDERAL AWARDS

Auditee Contact Person: M. Celita Green
Title of Contact Person: Director of Finance
Telephone No: (219) 881-1363

The City was unaware that all Recovery Act Federal Grant Awards must be identified with the prefix "ARRA" in the SEFA report. The City did approve an adjustment to the SEFA to include the ARRA prefix on all appropriate grants, and will identify all grants as such going forward.


M. Celita Green, Director of Finance


Date

CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on August 29, 2013, with Karen Freeman-Wilson, Mayor; M. Celita Green, Controller; Mary Brown, Council member; Michele Roby, Chief Accountant; Roxanne Williams, Internal Auditor; B.R. Lane, Chief of Staff; and Virgil Moore, Council Financial Advisor. The Official Response has been made a part of this report and may be found on pages 123 and 124.

CITY OF GARY
2012 RESPONSES TO AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS OVER BANK RECONCILEMENTS

The City was untimely in recording and reconciling some transactions, although all transactions were recorded by year end. We realize however, the importance of timely recording and reconciliation, and therefore have made some changes to eliminate delays in the future.

The responsibility of bank reconciliation has been moved from the Chief Accountant, who accepted additional responsibilities that contributed to the delay in recording, to a Senior Accountant. The Chief Accountant will supervise the timeliness of bank reconciliation, and the Chief Accountant or Controller will review and approve the bank reconciliations.

OVERDRAWN CASH BALANCES

Three of the funds that were overdrawn at year-end are reimbursable grants, and normally carry negative balances until they are reimbursed. However the city will examine the funds to determine the reason for the increase in the negative balances.

In 2012, an attempt was made to make the Ambulance Services self-sufficient, however, there was not enough revenue generated to realize this goal. In 2013, the ambulance personnel have been merged with the fire department budget. Ambulance revenues continue to be receipted to the non-reverting ambulance fund to resolve the negative balance for 2013. The negative balance has been reduced from \$822,138 to \$297,565 as of this date, and we expect the deficit to be resolved by year-end.

TEMPORARY TRANSFERS OF FUNDS (INCLUDES SANITARY DISTRICT)

The City has not been able to repay temporary internal fund transfers in a timely manner due to continued decreases in property tax collections, the inability to transfer the GSD levy in 2011, 2012, and 2013 to the City as approved by the Distress Unit Appeals Board, as well as, not having access to the fourteen million dollars (\$14M) in Casino Funds that is still held by Majestic Star casino while negotiating a settlement. The City does make payments on the loans annually, but not at the amount and pace that is required. The City is looking to make a greater impact in repaying the loans that are outstanding upon settlement with Majestic Star Casino.

CURRENT PAYMENT OF CLAIMS

Since property tax reform, the city has struggled to pay two of its largest vendors in a timely manner. The city is currently considering options that would allow us to resolve the delinquent claims with NIPSCO and self – insurance claims. In 2013, the City is no longer self-insured, but fully insured, and will eliminate the insurance liability from increasing in the future.

The City has a prior year outstanding balance of \$6,875,000 with the Regional Development Authority (RDA). These arrearages occurred when Majestic Star Casino filed a lawsuit and withheld Local Development funds from the City in 2008. The payments resumed in 2011, and the City was able to resume payment to RDA for its annual commitment of \$3.5M, however, Majestic Star has not yet released the \$14M that it withheld between 2008 and 2011. The City is committed to paying the arrearages due to the RDA upon settlement with Majestic Star Casino.