

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MICHIGAN CITY

LAPORTE COUNTY, INDIANA

January 1, 2013 to December 31, 2013



**FILED**  
12/04/2014



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#### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Donna Pappas	01-01-13 to 12-31-14
Mayor	Ron Meer	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Steve Janus	01-01-13 to 12-31-14
President of the Common Council	Duane Parry	01-01-13 to 12-31-14
Superintendent of Water Utility	Randall E. Russell	01-01-13 to 12-31-14
Sanitary District Manager	Michael Kuss	01-01-13 to 12-31-14



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
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TO: THE OFFICIALS OF THE CITY OF MICHIGAN CITY, LAPORTE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Michigan City (City), for the period from January 1, 2013 to December 31, 2013. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at [www.in.gov/sboa/](http://www.in.gov/sboa/).

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

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

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

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

October 23, 2014

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CONTROLLER  
CITY OF MICHIGAN CITY

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CITY OF MICHIGAN CITY  
FEDERAL FINDINGS

***FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE OVER  
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 control in place that operates effectively, material misstatements of the SEFA could remain undetected.

The Deputy Controller independently prepares the SEFA for inclusion in the financial report without oversight, review, or approval. A lack of segregation of duties within an internal control system could allow material misstatements of the SEFA to remain undetected.

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

1. The SEFA did not include federal expenditures of \$808,302. Federal expenditures omitted included Community Development Block Grants/Entitlement Grants of \$132,216, Equitable Sharing Program of \$30,751, and the Capitalization Grants for Clean Water State Revolving Funds of \$645,335.
2. The program titles for six grants listed were not reported correctly.

Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report.

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

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

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

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

"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:



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FEDERAL FINDINGS  
(Continued)

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

***FINDING 2013-002 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS***

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

1. Bank reconcilements were completed on a consistent basis. However, City and Water Utility officials failed to properly document that the reconcilements had been reviewed by someone other than the preparers to ensure that identified reconciling items were appropriate, supportable, and recorded timely.
2. The Water Utility lacks proper segregation of duties between the bank reconciling process and the vendor disbursement process. One individual is responsible for preparing the accounts payable vouchers, writing the checks, maintaining custody of the signature plate, and performing the bank reconcilements.

Control activities should be selected and developed at various levels to reduce risks to the achievement of financial reporting objectives. The Water Utility has not separated incompatible activities related to disbursements and reconciling. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

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)

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FEDERAL FINDINGS  
(Continued)

***FINDING 2013-003 - INTERNAL CONTROLS - CAPITALIZATION  
GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS***

Federal Agency: Environmental Protection Agency  
Federal Program: Capitalization Grants for Clean Water State Revolving Funds  
CFDA Number: 66.458  
Federal Award Number: WW131148  
Pass-Through Entity: Indiana Finance Authority

Management of the City has not established an effective internal control system, which would include monitoring activities of paid consultants, related to the grant agreement and the Davis-Bacon Act (prevailing wages). The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. This lack of an effective internal control system could allow the misuse and mismanagement of federal funds and assets by not having proper oversight, and reviews over the activities of the grant.

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, or detected and corrected, on a timely basis.

In order to have an effective internal control system, it is important to ensure that the activities of paid consultants 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 have a system in place to ensure the work product provided by the consultant employed by the Indiana Finance Authority to ensure compliance with the Davis-Bacon Act was adequate, complete, and accurate.

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

We recommended that the City's management establish controls to effectively monitor the activities of consultants employed to ensure compliance related to the grant agreement and compliance requirements that have a direct and material effect on the program.



# MICHIGAN CITY INDIANA

Office of City Controller - Donna Pappas, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: dpappas@emichigancity.com

## CORRECTIVE ACTION PLAN

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

### ***FINDING 2013-001 – Internal Controls and compliance over the schedule of expenditures of federal awards***

Description of Corrective Action Plan: A policy has been developed to track grants from inception to award. Also, within the Controller's Office, the Internal Auditor will double check the data input into Gateway to insure that all data entered has been accepted by Gateway. In the future, all CFDA numbers will be googled and the exact name of each program will be reported on the SEFA.

Now that the Controller's staff has been made aware that the SEFA is not just grants but all federal expenditures, including loans and forfeitures, these will be included on all future reports.

Anticipated Completion Date: The policy has been distributed to all City departments and the oversight and review process has been implemented.

### ***FINDING 2013-002 – Internal Controls over financial transactions***

Description of Corrective Action Plan: The Internal Auditor will prepare the monthly bank reconciliations and forward to the Assistant Controller for review.

Anticipated Completion Date: This process has been implemented.

  
(Signature)

\_\_\_\_\_  
City Controller  
(Title)

\_\_\_\_\_  
October 23, 2014  
(Date)

RON MEER – MAYOR

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



# MICHIGAN CITY INDIANA

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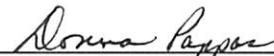
## CORRECTIVE ACTION PLAN

### ***Finding 2013-003 – Internal Controls – Capitalization Grants for Clean Water State Revolving Funds***

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

Description of Corrective Action Plan: As required by the conditions of the SRF loans, the certified payrolls are submitted directly to Mendenhall & Associates and copied to the City's Human Rights Director. The Human Rights Director will review for compliance. On a quarterly basis, the records will be forwarded to the City Controller's Office and reviewed and initialed by a staff member of the Controller's Office.

Anticipated Completion Date: This procedure is being written and will be implemented in October 2014.

  
\_\_\_\_\_  
Signature

City Controller  
Title

October 23, 2014

RON MEER – MAYOR

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CONTROLLER  
CITY OF MICHIGAN CITY  
AUDIT RESULTS AND COMMENTS

**APPROPRIATIONS**

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

Fund	Excess Amount Expended
General Fund	\$ 5,911,053
Aviation Operating	103,578
Cumulative Capital Development	4,112
Riverboat Gaming	638,311

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

**FIRE PENSION SECRETARY OFFICIAL BOND**

The Fire Pension Secretary did not obtain an individual Surety Bond as required by law.

Indiana Code 36-8-7-7(b) for the 1937 Firefighters' Pension Fund states in part: "The secretary shall, in the manner prescribed by IC 5-4-1, execute a bond conditioned upon the faithful discharge of the secretary's duties."

Indiana Code 5-4-1-18(c) states in part:

"Except as provided in subsections (h) and (i), the fiscal bodies of the respective units shall fix the amount of the bond of city controllers, city clerk-treasurers, town clerk-treasurers, Barrett Law fund custodians, county treasurers, county sheriffs, circuit court clerks, township trustees, and conservancy district financial clerks as follows: . . .

- (2) The amount may not be less than thirty thousand dollars (\$30,000) nor more than three hundred thousand dollars (\$300,000) unless the fiscal body approves a greater amount for the officer or employee.

County auditors shall file bonds in amounts of not less than thirty thousand dollars (\$30,000), as fixed by the fiscal body of the county. The amount of the bond of any other person required to file an individual bond shall be fixed by the fiscal body of the unit at not less than fifteen thousand dollars (\$15,000)."

**POLICE PENSION SECRETARY OFFICIAL BOND**

The Police Pension Secretary did not obtain an individual Surety Bond as required by law.

Indiana Code 36-8-6-3(e) for the 1925 Police Pension Fund states in part: "The secretary shall, in a manner prescribed by IC 5-4-1, execute a bond conditioned upon the faithful discharge of the secretary's duties."

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AUDIT RESULTS AND COMMENTS  
(Continued)

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***PERMANENT TRANSFERS***

Subsequent to the audit period on May 20, 2014, the Common Council approved Ordinance #4281 allowing permanent transfers between funds totaling \$12,550,000. The Blue Chip Development fund transferred \$4,251,500 to the General Fund and the Riverboat Gaming fund transferred \$8,298,500 to various tax levied funds.

We are unaware of any authority to make permanent transfers from the Riverboat Gaming fund or the Blue Chip Development fund. Per the ordinance establishing the uses of the gaming funds from the Blue Chip Development fund, the only uses authorized by the ordinance are for economic development or redevelopment.

Indiana Code 36-1-8-9 states:

"(a) Each unit that receives:

- (1) tax revenue under IC 4-33-12-6 or IC 4-33-13;
- (2) revenue under an agreement to share the tax revenue received under IC 4-33-12 or IC 4-33-13 by another unit; or
- (3) revenue under a development agreement (as defined in section 9.5 of this chapter);

may establish a riverboat fund. Money in the fund may be used for any legal or corporate purpose of the unit.

(b) The riverboat fund established under subsection (a) shall be administered by the unit's treasurer, and the expenses of administering the fund shall be paid from money in the fund. Money in the fund not currently needed to meet the obligations of the fund may be invested in the same manner as other public funds may be invested. Interest that accrues from these investments shall be deposited in the fund. Money in the fund at the end of a particular fiscal year does not revert to the unit's general fund."



# MICHIGAN CITY INDIANA

Office of City Controller - Donna Pappas, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: dpappas@emichigancity.com

October 23, 2014

Mr. Paul D. Joyce, CPA  
State Examiner  
State Board of Accounts

Mr. Joyce,

LaPorte County has been in a unique tax quandary in excess of seven (7) years. When the 2013 budgets were prepared and adopted, the last budget certified by the DLGF was 2008. The numbers used to calculate the levy, and thus prepare the budgets, were based on the last certified numbers. In November of 2012 the 2011 budget was certified and in November of 2013 the 2012 budget was certified. After the certification of the 2011 budget and we realized that the numbers used to calculate the 2013 budget were materially different, we began to deobligate appropriations. When the 2013 budget was certified in February of 2014, it became apparent that we did not deobligate enough of the appropriations in the General Fund, the Aviation Operating Fund, and the Cumulative Capital Development Fund. The City of Michigan City is not in the habit of over expending its appropriations. Approximately \$11,000,000 in temporary loans was not considered in the auditor's calculations.

The assumption that the pension secretaries were covered under the City's current bonds was pointed out to not be true. The pension secretaries will be covered under their own bonds.

Anticipated Completion Date:

The situation that causes these funds to over expend the budget has been resolved and we do not see this happening again.

The bonds for the pension secretaries have been obtained and recorded.

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Donna Pappas  
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CONTROLLER  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

The contents of this report were discussed on October 23, 2014, with Donna Pappas, Controller; Ron Meer, Mayor; Duane Parry, President of the Common Council; Yvonne Hoffmaster, Deputy Controller; Amber Lapaich-Stalbrink, City Attorney; and James B. Meyer, Common Council and Sanitary District Attorney.



COMMON COUNCIL  
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AUDIT RESULT AND COMMENT

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FIRE PENSION  
CITY OF MICHIGAN CITY

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CITY OF MICHIGAN CITY  
AUDIT RESULT AND COMMENT

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POLICE PENSION  
CITY OF MICHIGAN CITY

POLICE PENSION  
CITY OF MICHIGAN CITY  
AUDIT RESULT AND COMMENT

***POLICE PENSION SECRETARY OFFICIAL BOND***

The Police Pension Secretary did not obtain an individual Surety Bond as required by law.

Indiana Code 36-8-6-3(e) for the 1925 Police Pension Fund states in part: "The secretary shall, in a manner prescribed by IC 5-4-1, execute a bond conditioned upon the faithful discharge of the secretary's duties."

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"Except as provided in subsections (h) and (i), the fiscal bodies of the respective units shall fix the amount of the bond of city controllers, city clerk-treasurers, town clerk-treasurers, Barrett Law fund custodians, county treasurers, county sheriffs, circuit court clerks, township trustees, and conservancy district financial clerks as follows: . . .

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County auditors shall file bonds in amounts of not less than thirty thousand dollars (\$30,000), as fixed by the fiscal body of the county. The amount of the bond of any other person required to file an individual bond shall be fixed by the fiscal body of the unit at not less than fifteen thousand dollars (\$15,000)."



## MICHIGAN CITY INDIANA

Office of City Controller - Donna Pappas, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: dpappas@emichigancity.com

October 23, 2014

Mr. Paul D. Joyce, CPA  
State Examiner  
State Board of Accounts

Mr. Joyce,

LaPorte County has been in a unique tax quandary in excess of seven (7) years. When the 2013 budgets were prepared and adopted, the last budget certified by the DLGF was 2008. The numbers used to calculate the levy, and thus prepare the budgets, were based on the last certified numbers. In November of 2012 the 2011 budget was certified and in November of 2013 the 2012 budget was certified. After the certification of the 2011 budget and we realized that the numbers used to calculate the 2013 budget were materially different, we began to deobligate appropriations. When the 2013 budget was certified in February of 2014, it became apparent that we did not deobligate enough of the appropriations in the General Fund, the Aviation Operating Fund, and the Cumulative Capital Development Fund. The City of Michigan City is not in the habit of over expending its appropriations. Approximately \$11,000,000 in temporary loans was not considered in the auditor's calculations.

The assumption that the pension secretaries were covered under the City's current bonds was pointed out to not be true. The pension secretaries will be covered under their own bonds.

Anticipated Completion Date:

The situation that causes these funds to over expend the budget has been resolved and we do not see this happening again.

The bonds for the pension secretaries have been obtained and recorded.

A handwritten signature in cursive script, reading "Donna Pappas".

Donna Pappas  
Controller  
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RON MEER – MAYOR

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POLICE PENSION  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

The contents of this report were discussed on October 23, 2014, with Donna Pappas, Controller; Ron Meer, Mayor; Duane Parry, President of the Common Council; Yvonne Hoffmaster, Deputy Controller; Amber Lapaich-Stalbrink, City Attorney; and James B. Meyer, Common Council and Sanitary District Attorney.

WATER UTILITY  
CITY OF MICHIGAN CITY

WATER UTILITY  
CITY OF MICHIGAN CITY  
FEDERAL FINDING

***FINDING 2013-002 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS***

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

1. Bank reconcilements were completed on a consistent basis. However, City and Water Utility officials failed to properly document that the reconcilements had been reviewed by someone other than the preparers to ensure that identified reconciling items were appropriate, supportable, and recorded timely.
2. The Water Utility lacks proper segregation of duties between the bank reconciling process and the vendor disbursement process. One individual is responsible for preparing the accounts payable vouchers, writing the checks, maintaining custody of the signature plate, and performing the bank reconcilements.

Control activities should be selected and developed at various levels to reduce risks to the achievement of financial reporting objectives. The Water Utility has not separated incompatible activities related to disbursements and reconciling. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

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)



# DEPARTMENT OF WATER WORKS

*Pure Filtered Water*

DISTRIBUTION CENTER  
701 GRAND STREET  
MICHIGAN CITY, INDIANA 46360  
219/874-6683  
FAX: 219/874-8064

MAIN OFFICE  
532 FRANKLIN SQUARE  
P.O. BOX 888  
MICHIGAN CITY, INDIANA 46361  
219/874-3228  
FAX: 219/874-1433

FILTRATION PLANT  
111 LAKE SHORE DRIVE  
MICHIGAN CITY, INDIANA 46360  
219/872-4430  
FAX: 219/873-9323

September 23, 2014

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

RE: Audit - Corrective Action Plan

Gentlemen:

Please find attached, the Corrective Action Plan for the Michigan City Department of Water Works.

If any further information is needed, please contact our office.

Very truly yours,

DEPARTMENT OF WATER WORKS

Randall E. Russell  
Superintendent

Attachment



# DEPARTMENT OF WATER WORKS

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## CORRECTIVE ACTION PLAN

### ***FINDING 2013-002 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS***

Contact Person Responsible for Corrective Action: Ron Plamowski  
Contact Phone Number: (219) 874-3228

#### Description of Corrective Action Plan:

The Management team of The Department of Water Works adopted the following changes after field work for the audit was completed, beginning on July 15, 2014. These new procedures are in place and provide the necessary controls called for in the finding.

To improve segregation of duties we have transferred custody of the signature plate to the Head Cashier. The Head Cashier has custody of the plate and is responsible for using the plate on the disbursement checks. The Head Cashier has no other conflicting disbursement responsibilities. The Office Manager - Accountant reviews all Bank reconcilements and indicates he has reviewed them by his initials.

  
\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
Superintendent  
(Title)

\_\_\_\_\_  
September 23, 2014  
(Date)



WATER UTILITY  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

The contents of this report were discussed on October 23, 2014, with Randall E. Russell, Superintendent of the Water Utility; L. J. Jordan III, President of the Water Utility Board; and Ronald Plamowski, Water Utility Office Manager/Accountant.

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SANITARY DISTRICT  
CITY OF MICHIGAN CITY

SANITARY DISTRICT  
CITY OF MICHIGAN CITY  
FEDERAL FINDING

***FINDING 2013-003 - INTERNAL CONTROLS - CAPITALIZATION  
GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS***

Federal Agency: Environmental Protection Agency  
Federal Program: Capitalization Grants for Clean Water State Revolving Funds  
CFDA Number: 66.458  
Federal Award Number: WW131148  
Pass-Through Entity: Indiana Finance Authority

Management of the City has not established an effective internal control system, which would include monitoring activities of paid consultants, related to the grant agreement and the Davis-Bacon Act (prevailing wages). The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. This lack of an effective internal control system could allow the misuse and mismanagement of federal funds and assets by not having proper oversight, and reviews over the activities of the grant.

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, or detected and corrected, on a timely basis.

In order to have an effective internal control system, it is important to ensure that the activities of paid consultants 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 have a system in place to ensure the work product provided by the consultant employed by the Indiana Finance Authority to ensure compliance with the Davis-Bacon Act was adequate, complete, and accurate.

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

We recommended that the City's management establish controls to effectively monitor the activities of consultants employed to ensure compliance related to the grant agreement and compliance requirements that have a direct and material effect on the program.



# MICHIGAN CITY INDIANA

Office of City Controller - Donna Pappas, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: dpappas@emichigancity.com

## CORRECTIVE ACTION PLAN

### ***Finding 2013-003 – Internal Controls – Capitalization Grants for Clean Water State Revolving Funds***

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

Description of Corrective Action Plan: As required by the conditions of the SRF loans, the certified payrolls are submitted directly to Mendenhall & Associates and copied to the City's Human Rights Director. The Human Rights Director will review for compliance. On a quarterly basis, the records will be forwarded to the City Controller's Office and reviewed and initialed by a staff member of the Controller's Office.

Anticipated Completion Date: This procedure is being written and will be implemented in October 2014.

  
Signature

City Controller  
Title

October 23, 2014

RON MEER – MAYOR

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

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