

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF HAMMOND

LAKE COUNTY, INDIANA

January 1, 2013 to December 31, 2013



FILED
08/20/2015

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Robert Lendi, CPA	01-01-13 to 04-30-14
	(Vacant)	05-01-14 to 05-11-14
	Heather Garay	05-12-14 to 12-31-15
Mayor	Thomas M. McDermott, Jr.	01-01-12 to 12-31-15
Clerk	Robert J. Golec	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	William J. O'Connor	01-01-13 to 06-30-13
	Robert Lendi, CPA	07-01-13 to 04-30-14
	Edward Krusa	05-01-14 to 12-31-15
President of the Common Council	Michael Opinker	01-01-13 to 12-31-15
President of the Redevelopment Commission	McKinley Nutall	01-01-13 to 12-31-13
	Jimmie Lambert	01-01-14 to 08-19-14
	Anthony Hauprich	08-20-14 to 12-31-15
President of the Park Board	Arthur Peschke, Jr.	01-01-13 to 12-31-15
Chief Executive Operator of the Water Utility	Edward Krusa	01-01-13 to 12-31-15
President of the Utility Service Board	Sharon Daniels	01-01-13 to 12-31-15
Water Utility Office Manager	Deborah Van Meter	01-01-13 to 12-31-15
Sanitary District Manager	Michael T. Unger, Ph.D.	01-01-13 to 11-25-13
	Marty Wieglos	11-26-13 to 12-31-15
President of the Sanitary District Board of Commissioners	Stanley J. Dostatni	01-01-13 to 12-31-15
Sanitary District Business Manager	Rachel Montes	01-01-13 to 12-31-15
Director of the Port Authority	Milan Kruszynski	01-01-13 to 12-31-15
Chairman of the Port Authority Board of Directors	Dennis Hardesty	01-01-13 to 12-31-13
	Scott Rakos	01-01-14 to 12-31-15
Port Authority Financial Director	Richard Szany	01-01-13 to 12-31-15



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

This report is supplemental to our audit report of the City of Hammond (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/.

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

May 18, 2015

CITY CONTROLLER
CITY OF HAMMOND

CITY CONTROLLER
CITY OF HAMMOND
FEDERAL FINDINGS

***FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING***

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

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the City to reduce risks to the achievement of financial reporting objectives. The City has not separated incompatible activities related to receipts, disbursements, and cash and investments. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

One person in the Controller's Office is responsible for recording receipts and taking the collections to the depository. There is also one person responsible for generating, recording, and remitting the senior reimbursement disbursements. Journal entries are used to record trust account activity; however, supporting documentation for the entries is not maintained or reviewed for authorization or accuracy. There are also not effective controls over the disbursements recorded in or the reconciliation of the City's Payroll and Withholding fund.

Port Authority: The Finance Director prepares the bank reconciliation. The monthly depository reconciliations are not reviewed for completeness and accuracy.

Hammond Sanitary District:

- The Accounts Receivable Clerk is responsible for preparing the receipts, recording the receipts to the accounting systems, and preparing collections for deposit. The Accounts Receivable Clerk can also adjust bills in the system after they have been posted.
- The Accounts Payable Clerk is responsible for preparing the checks and recording the invoices in the accounting system.
- The Payroll Manager is responsible for the entire payroll process and is able to make payroll rate changes in the computer system.
- The Business Manager prepares the bank reconciliation. The monthly depository reconciliations are not reviewed for completeness and accuracy.

Self-Insurance Disbursements: The City has contracted with a third-party administrator to process medical claims. The Controller's office records the individual vendor payments in the City's ledger and also mails the checks to the vendors as funds are available in the self-insurance fund. There is no supporting documentation submitted with the checks prepared by the third-party administrator; therefore, the City cannot review the claims for completeness and accuracy. The City has not implemented any other procedures to verify the claims for completeness and accuracy.

2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the City's audited financial statement and then determining how those identified risks should be managed. The City has not identified risks to the preparation of a reliable financial statement and as a

CITY CONTROLLER
CITY OF HAMMOND
FEDERAL FINDINGS
(Continued)

result has failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements, including notes to the financial statement. In addition, management of the City has not established a process for final review of the financial statement after compilation.

The City Controller is responsible for preparing the Annual Financial Report (AFR) and electronically submitting it to the Indiana State Board of Accounts. The AFR is the basis for the City's financial statement. The financial information submitted generated the following discrepancies on the City's financial statement:

- The beginning cash and investment balances reported in the financial statement presented for audit were overstated by \$11,467,299 in total compared to the prior audit ending cash and investment balances.
- The financial statement receipts were understated by \$11,574,303 when compared to the records. This was caused by errors when computing the receipt activity from the accrual basis of accounting to the prescribed regulatory basis for the Sanitary District funds and other errors.
- The financial statement disbursements were understated by \$11,717,965 when compared to the records. This was caused by the omission of recording the disbursement activity of a trust account and errors when computing the disbursements from the accrual basis to the prescribed regulatory basis for the Sanitary District funds and other errors.
- The ending cash and investment balances reported in the financial statement presented for audit were understated by \$11,653,424 in total. This was caused by the numerous errors and omissions addressed in the above items.
- The recorded cash and investment balances did not agree with the reconciled bank and trust balances by \$152,358. The employee who completed the bank reconciliation did not verify the actual trust statement balances to the record balances. The difference between the records and the reconciled bank and trust accounts were caused by trust activity that was not recorded accurately in the ledgers.

Audit adjustments were proposed, accepted by the City Controller, and made to the financial statement.

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 CONTROLLER
CITY OF HAMMOND
FEDERAL FINDINGS
(Continued)

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

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

FINDING 2013-002 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over 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 City has not established controls to effectively identify, manage, and report federal financial assistance. Under the current system, each department independently monitors their grant activities. Grant agreements and requests for advances or reimbursements of federal funds are not always provided to the City Controller. Federal and state grant monitoring reports are prepared by each department based upon the records of grant activities maintained by the departments. The City Controller relies on each department to report their federal assistance activities for use in preparing the SEFA.

The City had initially reported federal expenditures of \$30,138,362, but after auditing the SEFA, federal expenditures were determined to be \$12,740,564; a difference of \$17,397,798. Errors included: the expenditures from 7 federal grants were not reported (\$247,481 understated), total expenditures rather than the federal percentage of expenditures for the projects financed with Capitalization Grants for Clean Water State Revolving Funds were reported (\$16,413,451 overstated), incorrect federal expenditures were reported for federal grants from the Department of Housing and Urban Development (\$1,223,220 overstated), and other miscellaneous errors (net \$8,608 overstated).

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)

CITY CONTROLLER
CITY OF HAMMOND
FEDERAL FINDINGS
(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 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.
- (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 subrecipients 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."



Heather Garay, J.D.
Controller

CITY OF HAMMOND

May 22, 2015

CORRECTIVE ACTION PLAN

FINDING 2013 - 001 - INTERNAL CONTROLS AND COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action: Heather Garay, Controller
Contact Phone Number: 219-853-6324

Corrective Action:

1. Lack of Segregation of Duties:

a. Controller's Office:

- i. The City will put in place controls to separate incompatible activities related to receipts and disbursements. The task of taking the collections to the depository will be performed by an employee who is not responsible for recording receipts. Senior reimbursement disbursements will be reviewed and remitted by an employee who does not generate the claim. Documentation for trust account activity will be attached to monthly journal entry printouts to be reviewed and signed by the Controller. The Deputy Controller will cross check and sign final payroll registers and current electronic fund transfers for the payroll withholding fund ran by the payroll clerk.

Anticipated Completion Date: 7/1/2015

b. Port Authority:

- i. *See attached Corrective Action Plan prepared by department.*

c. Hammond Sanitary District:

- i. *See attached Corrective Action Plan prepared by department.*

d. Self-Insurance Disbursements:

- i. The City's third-party administrator does provide supporting documentation with the checks. Each check has an explanation of benefits and payment detail attached. The third-party administrator also provides a check register with each batch of checks. The explanation of benefits and payment detail is sent to the provider with the check. Going forward, the City will test 10% of checks in each batch by reviewing the explanation of benefits and check amount for accuracy. A copy of the explanation of benefits and payment detail will be signed and retained for tested checks.

Anticipated Completion Date: 7/1/2015

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Heather Garay, J.D.
Controller

CITY OF HAMMOND

2. Preparing Financial Statements:

- a. The City will design effective controls over the preparation of the financial statement and established a process for final review of the financial statement after compilation. The City Controller will grant editing rights to the Port Authority, Sanitary District and Water Department for each department's respective funds in the Indiana Gateway. Each department will submit back-up documentation for their financial reporting, including conversions from accrual to cash, to the Controller for review. The Deputy Controller will review all entries of the City, Port Authority, Sanitary District and Water Department before final submission by the Controller. The employee completing the bank reconciliation will verify the actual trust statement balances to the record balances. This will be reviewed and signed by the Controller. The Controller will have access to each entity's financial software systems to better assist in the preparation of the financial statement.

Anticipated Completion Date: 8/1/2015



Heather Garay, Controller



Date

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Heather Garay, J.D.
Controller

CITY OF HAMMOND

May 22, 2015

CORRECTIVE ACTION PLAN

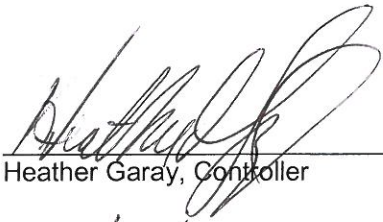
FINDING 2013 - 002 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person Responsible for Corrective Action: Heather Garay, Controller
Contact Phone Number: 219-853-6324


Corrective Action:

The Controller will work with departments to establish a comprehensive reporting of all federal awards. The Schedule of Expenditures of Federal Awards will be reviewed and signed by the department head and Controller before final submission.

Anticipated Completion Date: 8/1/2015



Heather Garay, Controller



Date

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CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statement included the following funds with overdrawn cash balances at December 31, 2013:

Fund	Amount Overdrawn
City:	
General	\$ 33,829,002
M.V.H.	3,139,277
LRS	971,505
Transit	375,309
Park	1,925,989
Centrex	77,443
Red P & I	152,434
Local Seizure	8,188
C.D.B.G.	350,069
Ambulance Fees	249,735
Unemployment	474,487
Henry Unit	1,298,453
Afford Housing	127,063
Inspt/Rental	279,753
Civil City Bond	15,851
Golf Course	244,270
Sanitary District:	
Operations	1,408,085
Sewer	103,395
Sanitation	418,302
Recycling	995,422
Port Authority:	
Payroll and Withholding	98
Total Overdrawn Funds	\$ 46,444,130

Funds with overdrawn cash balances as a result of grant expenditures awaiting reimbursement are not included in the list above.

The cash 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)

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

DISBURSEMENTS IN EXCESS OF APPROPRIATIONS

The following funds recorded expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Disbursements in Excess of Appropriations</u>
General	\$ 31,770,409
M.V.H.	2,647,691
LRS	501,309
C.C.D.F.	55,670
Water Hydrant Rental	8,367
Civil City Bond	801

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."

Appropriations as stated in the budget, or as modified by additional appropriations, shall constitute the limitation of disbursements. No disbursement shall be made without an appropriation therefore unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

REIMBURSEMENT OF CANCELED TRAVEL

A Redevelopment Commission Board member was reimbursed \$1,061 for conference expenses (airline and hotel) paid by the Board member. The Board member did not attend the conference due to a family illness. The City's travel policy does not address the City's responsibility when personal emergencies occur and travel plans are changed.

Each governmental unit should adopt a written travel policy in conformity with applicable statutes. Reimbursement for lodging and meals should be based upon actual receipts for amounts paid unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

APPROVAL OF FORMS

The City used forms which had not been approved for use in lieu of prescribed forms to summarize certain financial information.

The City used an Animal License as the payer's receipt. This form has not been approved as an alternate form for General Receipt Form No. 352.

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

The City Controller's Office used counter receipts for certain sources of collections that were not approved as an alternate to the prescribed General Receipt Form No. 352. These receipt transactions were not individually recorded in the City's records. They were placed in batches by source, such as rental registrations, and entered into the accounting software which produced one receipt for each batch.

No one ensured that all of the counter receipts and animal license receipts were recorded and deposited.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PAYROLL DEFICIENCIES

Payment in Advance

Employee compensation, hours, and leave time were reported by the departmental payroll clerks to the Controller's Office on a bi-weekly "Payroll Earnings Forecast" (forecast). The forecasts were submitted for payroll processing by the Monday or Tuesday prior to the pay date, which was on Friday. Salaried employees were paid for the current and subsequent week and, were therefore, paid in advance up to ten days prior to performing the service. This pay also cannot reflect leave time used for the period covered.

Indiana Code 5-7-3-1 states in part: "Public officers may not draw or receive their salaries in advance. . . ."

Leave Policies

The City abided by negotiated union agreements for sick and injured leaves and benefits for police officers and firefighters. Both union agreements were effective for the period of January 1, 2009 through December 31, 2012. Neither agreement specified the details of the policy but instead stated: "The present sick and injured leave policies shall remain unchanged during the term of this Agreement . . ." We could not determine what the policy entailed; therefore, it is possible that overpayments to employees could have occurred.

Each governmental unit should adopt written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the governing board would be considered as written policy. The policy should conform to the requirements of all state and federal regulatory agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Employee Service Records

Time records or an Employee Service Record (General Form No. 99A) were not maintained by the Corporation Counsel, a City employee, for 2013.

The Fire Department did not maintain employee service records. An attendance record was maintained which is similar to the Employee Service Record (General Form No. 99A), but it did not provide information on leave balances, leave accruals, and leave usage. Overtime hours were not recorded on the attendance record. Leave was also not reported on the "Payroll Earnings Forecast" which was certified by the department head.

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

The Police Department maintained Employee Service Records (General Form No. 99A); however, overtime hours worked were not reported. Leave time was not reported on the "Payroll Earnings Forecast" which was certified by the department head. Additionally, compensatory leave accruals, usage, and balances were not reported. In many instances, the Employee Service Records (General Form No. 99A), were not in agreement with the Payroll Earnings Forecast leave time reported.

The Federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99A, Employees' Service Record
General Form 99B, Employee's Earnings Record
General Form 99C, Employee's Weekly Earnings Record

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor. (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. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PART-TIME EMPLOYEES COMPENSATION

The City employed individuals to work at the Festival of the Lakes, a Park Department sponsored event. These individuals were paid in accordance with rates established in the Salary Ordinance for part-time employees; however, they were not paid through payroll. These individuals were paid via accounts payable vouchers totaling \$9,560.

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

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

CURRENT PAYMENT OF CLAIMS - SELF INSURANCE

The City maintains a Self Insurance fund for the payment of employee health insurance claims. A third-party administrator initially receives the medical claims, processes them and produces the vendor checks for payment. The vendor checks are accumulated each month and are remitted to the City Controller's Office (Controller) the following month, accompanied by a printed check register. The City Controller records the individual vendor payments in the City's ledger and also mails the checks to the vendors as funds are available in the Self Insurance fund.

The City Controller received the August through November 2013 health insurance vendor checks totaling \$2,884,027 in 2013. However, the August and September checks were not recorded or remitted until January 2014. The October and November checks were not recorded or remitted until February and April 2014, respectively.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit. Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PUBLIC RECORDS RETENTION

The duplicate deposit slips for the period of November 14, 2013 through January 28, 2014 (one deposit book) were not available for audit from the City Controller's Office. Therefore, we could not determine if the composition of the receipts were in agreement to the composition remitted to the depository. Also, we could not determine if daily deposits were made.

Indiana Code 5-15-6-3(f), concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission. . . ."

TAX INCREMENT FINANCING (TIF) DISSOLUTION

During 2012 and 2013, the following excess tax increment financing (TIF) funds were transferred or receipted directly as follows:

Years	Intended TIF Fund	Fund Recorded In or Transferred To	Amount
2012	North Hammond TIF (280)	General	\$ 4,639,101
2012	North Hammond TIF (280)	Redevelopment	428,519
2012	Unilever TIF (283)	General	2,456,764
2012	Unilever TIF (283)	Redevelopment	<u>450,000</u>
	Subtotal 2012		<u>7,974,384</u>
2013	North Hammond TIF (280)	General	<u>1,132,446</u>
	Total TIF Distributions Inaccurately Recorded		<u>\$ 9,106,830</u>

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

Rather than transfer excess TIF monies to other funds, excess cash and investment balances above the amount necessary to cover allowable debt payments and any other statutorily allowed expenses should be reallocated to the respective taxing units. By receipting the excess monies in other funds, it was not possible to determine if the TIF monies were used for expenditures allowed by statute. The uses allowed for any TIF monies received are restricted by statute and are prohibited from being used for the operating expenses of the Redevelopment Commission.

Indiana Code 36-7-14-39(b) states in part:

- "(3) Except as otherwise provided in this section, property tax proceeds in excess of those described in subdivisions (1) and (2) shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following:
- (A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds which are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.
 - (B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area.
 - (C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under section 27 of this chapter.
 - (D) Pay the principal of and interest on bonds issued by the unit to pay for local public improvements that are physically located in or physically connected to that allocation area.
 - (E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.
 - (F) Make payments on leases payable from allocated tax proceeds in that allocation area under section 25.2 of this chapter.
 - (G) Reimburse the unit for expenditures made by it for local public improvements (which include buildings, parking facilities, and other items described in section 25.1(a) of this chapter) that are physically located in or physically connected to that allocation area.
 - (H) Reimburse the unit for rentals paid by it for a building or parking facility that is physically located in or physically connected to that allocation area under any lease entered into under IC 36-1-10.
 - (I) For property taxes first due and payable before January 1, 2009, pay all or a part of a property tax replacement credit to taxpayers in an allocation area as determined by the redevelopment commission. This credit equals the amount determined under the following STEPS for each taxpayer in a taxing district (as defined in IC 6-1.1-1-20) that contains all or part of the allocation area: . . .

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

(J) Pay expenses incurred by the redevelopment commission for local public improvements that are in the allocation area or serving the allocation area. Public improvements include buildings, parking facilities, and other items described in section 25.1(a) of this chapter.

(K) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located: (i) in the allocation area; and (ii) on a parcel of real property that has been classified as industrial property under the rules of the department of local government finance.

(L) Pay the costs of carrying out an eligible efficiency project (as defined in IC 36-9-41-1.5) within the unit that established the redevelopment commission. However, property tax proceeds may be used under this clause to pay the costs of carrying out an eligible efficiency project only if those property tax proceeds exceed the amount necessary to do the following: . . .

The allocation fund may not be used for operating expenses of the commission.

(4) Except as provided in subsection (g), before July 15 of each year, the commission shall do the following:

(A) Determine the amount, if any, by which the assessed value of the taxable property in the allocation area for the most recent assessment date minus the base assessed value, when multiplied by the estimated tax rate of the allocation area, will exceed the amount of assessed value needed to produce the property taxes necessary to make, when due, principal and interest payments on bonds described in subdivision (3), plus the amount necessary for other purposes described in subdivision (3).

(B) Provide a written notice to the county auditor, the fiscal body of the county or municipality that established the department of redevelopment, and the officers who are authorized to fix budgets, tax rates, and tax levies under IC 6-1.1-17-5 for each of the other taxing units that is wholly or partly located within the allocation area. The notice must:

- (i) state the amount, if any, of excess assessed value that the commission has determined may be allocated to the respective taxing units in the manner prescribed in subdivision (1); or
- (ii) state that the commission has determined that there is no excess assessed value that may be allocated to the respective taxing units in the manner prescribed in subdivision (1).

The county auditor shall allocate to the respective taxing units the amount, if any, of excess assessed value determined by the commission. The commission may not authorize an allocation of assessed value to the respective taxing units under this subdivision if to do so would endanger the interests of the holders of bonds described in subdivision (3) or lessors under section 25.3 of this chapter."

CITY CONTROLLER
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EXIT CONFERENCE

The contents of this report were discussed on May 18, 2015, with Thomas M. McDermott, Jr., Mayor; Heather Garay, City Controller; Dan Spitale, Vice President of the Common Council; Mark McLaughlin, City Chief of Staff; and Kimberly Fabris, Deputy City Controller.

The contents of this report were mailed on May 28, 2015, to Robert Lendi, former City Controller.

REDEVELOPMENT COMMISSION
CITY OF HAMMOND

REDEVELOPMENT COMMISSION
CITY OF HAMMOND
FEDERAL FINDINGS

***FINDING 2013-004 - INTERNAL CONTROLS OVER COMMUNITY
DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS***

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218
Federal Award Numbers: B11MC180006, B12MC180006, B08MN180006, B11MN180006

Management of the City's Department of Planning and Development (Department) and the Redevelopment Commission (Commission) have not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the following compliance requirements that have a direct and material effect on the program: Allowable Costs and Cost Principles; Davis-Bacon Act; Equipment and Real Property Management; Matching, Level of Effort, and Earmarking; Period of Availability; Procurement and Suspension and Debarment; Program Income; Reporting; Subrecipient Monitoring; and Special Tests and Provisions. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Allowable Costs and Cost Principles

Part of the City's Community Development Block Grants (Entitlement Grants CDBG) funding is for payroll expenditures for administration and program costs. The Department and Commission have not designed controls to ensure compliance with the Allowable Costs and Cost Principles requirements for the CDBG. There are no controls to ensure that payroll expenditures claimed for the CDBG program were supported by the payroll detail, or that timesheets with allocation by program area were available.

Davis-Bacon Act

The Department developed a written manual of policies and procedures to ensure compliance with labor standards, including the Davis-Bacon Act. However, not all of these policies and procedures were followed for CDBG construction projects requiring compliance with the Davis-Bacon Act. Controls were not properly designed to ensure that a review or comparison of the certified weekly payrolls to the applicable prevailing wage rates was properly documented on the payrolls.

Equipment and Real Property Management

Although the Neighborhood Stabilization Program (NSP) Manager tracked the real property purchased and sold from NSP grant funds, reconciliation with the City's official Capital Assets Ledger was not performed during the audit period. In addition, the NSP Manager sent documentation via email to the Controller's Office which detailed the purchase and sale of NSP property; however, no control was in place to ensure that NSP funded asset purchases and sales were properly recorded in the City's Capital Assets Ledger.

REDEVELOPMENT COMMISSION
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FEDERAL FINDINGS
(Continued)

Matching, Level of Effort, and Earmarking

The City receives NSP funds for the acquisition and rehabilitation of foreclosed and/or vacant residential homes. As part of the Earmarking compliance requirements, 25 percent of the NSP funding is to be used to house individuals or families whose income does not exceed 50 percent of the area median income - low income households (LIH). The NSP Rehab Loan Officer maintained files on the individuals and families who met the LIH requirements and the NSP Manager indicated if a disbursement was for a LIH property. However, there were no controls to ensure that disbursements were encoded as earmarked for LIH, LMMIH (Low, Moderate, and Middle Income Households), or administration in both the City's Ledger and in the HUD Disaster Recovery Grant Reporting (DRGR) System.

Part of the CDBG funding is earmarked for payroll expenditures for administration and program costs. The Department and Commission have not adopted policies and procedures or designed controls to ensure compliance with the earmarking requirements for CDBG, including controls to ensure that disbursements claimed for CDBG and earmarked for payroll expenditures were properly coded for administration and program costs by IDIS (Integrated Disbursement and Information System) number.

Period of Availability

The Department and Commission have not adopted policies and procedures or designed controls to ensure compliance with the CDBG requirements for Period of Availability. There are no controls to ensure that vendor and payroll expenditures claimed for the CDBG program were incurred after the effective date of the grant agreement or meet the six requirements if for pre-award costs prior to the effective date of the grant agreement.

Procurement

The Department and Commission have not adopted policies and procedures or designed controls to ensure compliance with the requirements for Procurement. The Department did not have controls in place to ensure that all construction change orders were approved by the Commission and that the total of all change orders that increase the scope of the project did not exceed 20 percent of the amount of the original contract.

Suspension and Debarment

The Department adopted the following policy for determining whether or not a vendor had been suspended or excluded from doing business with the federal government: "Before executing any contracts equal to or exceeding \$25,000, the City will ensure that the contractor is not suspended or debarred from working on federally-funded contracts by searching the Internet-based System for Award Management (www.sam.gov). The City will document that the selected contractor has not been suspended or debarred by printing out the search screen from the SAM.gov website and including the printout in the project file."

Procedures to monitor or review compliance with the City's established procedures and the federal requirements regarding Suspension and Debarment were not implemented.

Program Income

The City's NSP purchased foreclosed homes with NSP funds. The foreclosed homes were refurbished with NSP funds and then sold. Program income was generated when the previously foreclosed homes were sold. The City did not have effective controls in place to ensure that program income generated from NSP home sales was correctly recorded or monitored.

REDEVELOPMENT COMMISSION
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FEDERAL FINDINGS
(Continued)

Reporting

The Department and Commission have not designed effective controls to ensure compliance with the Reporting requirements of the program. Controls were not in place to ensure that all required federal reports are submitted and that NSP reports were accurate.

Subrecipient Monitoring

The Department and Commission have not designed effective controls to ensure compliance with the Subrecipient Monitoring requirements of the program. CDBG funds were distributed to various subrecipients and local nonprofit organizations. The Department did not have procedures to monitor subrecipients and to ensure that they obtained an A-133 audit and provided any findings to the Department, when applicable.

Special Tests and Provisions: Citizen Participation

The Department and Commission have not adopted policies and procedures or designed controls to ensure compliance with Citizen Participation requirements. The City prepared a citizen participation plan; however, controls were not in place to ensure the plan had the required elements and the plan was implemented.

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 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 establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect on the program.

FINDING 2013-005 - ALLOWABLE COSTS AND COST PRINCIPLES, EARMARKING

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218
Federal Award Numbers: B11MC180006, B12MC180006

REDEVELOPMENT COMMISSION
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FEDERAL FINDINGS
(Continued)

The City receives Community Development Block Grant (CDBG) funds to develop a viable urban community by providing decent housing, a suitable living environment, and expanded economic opportunities principally for persons of low and moderate income. Noncompliance was noted with the following compliance requirements of the CDBG program:

Allowable Costs and Cost Principles

The City did not comply with the Allowable Costs and Cost Principles requirements of the CDBG program when reimbursement was requested for payroll costs originally disbursed in October 2011 through June 2012. The Department of Housing and Urban Development (HUD) requires that CDBG requests for reimbursement of payroll costs be supported by timesheets allocating employee time by project or general administrative activities.

On March 28, 2013, the City requested reimbursement of \$399,554.97 in payroll costs originally disbursed in October 2011 through June 2012. This was the only voucher in 2013 requesting reimbursement for payroll costs and included both grants B11MC180006 and B12MC180006. The total payroll amounts were supported by timesheets; however, the amounts claimed by project were \$88,671.37 in excess of the supported time allocation documents. The officials requested the amounts by project based upon the budget amounts available and not yet drawn; versus the actual payroll costs with timesheet allocation documentation. See the following table for details of the payroll costs in the request for reimbursement, the timesheet allocation by project supporting documentation, and the variance.

<u>Grant Number and Project Name</u>	<u>Amount Claimed in Voucher (Reimbursement Request)</u>	<u>Supported by Payroll Detail</u>	<u>Variance</u>	<u>Excess Claimed</u>
Grant B11MC180006:				
CDBG Administration	\$ 229,326.74	\$ 209,284.92	\$ 20,041.82	\$ -
Economic Development Program Delivery	-	87,600.67	(87,600.67)	-
Homebound	18,756.95	39,869.47	(21,112.52)	-
Disability Ramp	16,618.00	13,386.52	3,231.48	3,231.48
Emergency Housing Repair	<u>4,894.89</u>	<u>3,704.49</u>	<u>1,190.40</u>	<u>1,190.40</u>
Subtotal for Grant B11MC180006	<u>269,596.58</u>	<u>353,846.07</u>	<u>(84,249.49)</u>	<u>4,421.88</u>
Grant B12MC180006:				
Emergency Housing Repair	10,795.11	-	10,795.11	10,795.11
Façade/Roof Rebate	47,070.00	6,536.05	40,533.95	40,533.95
Project Pride Paint	50,623.63	21,148.93	29,474.70	29,474.70
Day Care	8,974.90	6,258.69	2,716.21	2,716.21
Youth Sports	<u>12,494.75</u>	<u>11,765.23</u>	<u>729.52</u>	<u>729.52</u>
Subtotal for Grant B11MC180006	<u>129,958.39</u>	<u>45,708.90</u>	<u>84,249.49</u>	<u>84,249.49</u>
Totals	<u>\$ 399,554.97</u>	<u>\$ 399,554.97</u>	<u>\$ -</u>	<u>\$88,671.37</u>

The total claimed in excess of the supported payroll detail is composed of \$4,421.88 from grant B11MC180006 and \$84,249.49 from grant B12MC180006. Because the reimbursement request was not supported by actual allocation of time documents, the costs are not allowable and the entire \$88,671.37 is considered questioned costs.

REDEVELOPMENT COMMISSION
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(Continued)

Earmarking

The City did not properly encode or earmark the October 2011 through June 2012 actual payroll costs included in the \$399,554.97 request for reimbursement from March 28, 2013, for both grant B11MC180006 and grant B12MC180006. A total of \$217,426.38 was not properly encoded or earmarked. See the following table for the details by project code or earmark.

Grant Number and Project Name	Amount Claimed in Voucher (Reimbursement Request)	Supported by Payroll Detail	Variance	Not Properly Encoded or Earmarked
Grant B11MC180006:				
CDBG Administration	\$ 229,326.74	\$ 209,284.92	\$ 20,041.82	\$ 20,041.82
Economic Development Program Delivery	-	87,600.67	(87,600.67)	87,600.67
Homebound	18,756.95	39,869.47	(21,112.52)	21,112.52
Disability Ramp	16,618.00	13,386.52	3,231.48	3,231.48
Emergency Housing Repair	<u>4,894.89</u>	<u>3,704.49</u>	<u>1,190.40</u>	<u>1,190.40</u>
Subtotal for Grant B11MC180006	<u>269,596.58</u>	<u>353,846.07</u>	<u>(84,249.49)</u>	<u>133,176.89</u>
Grant B12MC180006:				
Emergency Housing Repair	10,795.11	-	10,795.11	10,795.11
Façade/Roof Rebate	47,070.00	6,536.05	40,533.95	40,533.95
Project Pride Paint	50,623.63	21,148.93	29,474.70	29,474.70
Day Care	8,974.90	6,258.69	2,716.21	2,716.21
Youth Sports	<u>12,494.75</u>	<u>11,765.23</u>	<u>729.52</u>	<u>729.52</u>
Subtotal for Grant B11MC180006	<u>129,958.39</u>	<u>45,708.90</u>	<u>84,249.49</u>	<u>84,249.49</u>
Totals	<u>\$ 399,554.97</u>	<u>\$ 399,554.97</u>	<u>\$ -</u>	<u>\$ 217,426.38</u>

OMB Circular A-87, Attachment A, Part C, Basic Guidelines states in part:

"1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- b. Be allocable to Federal awards under the provisions of this Circular.
- c. Be authorized or not prohibited under State or local laws or regulations.
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

REDEVELOPMENT COMMISSION
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(Continued)

- f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
 - g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.
 - h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
 - i. Be the net of all applicable credits.
 - j. Be adequately documented. . . .
3. Allocable costs.
- a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. . . ."

24 CFR 570.200(g) states:

"Limitation on planning and administrative costs. No more than 20 percent of the sum of any grant, plus program income, shall be expended for planning and program administrative costs, as defined in §570.205 and §507.206, respectively. Recipients of entitlement grants under subpart D of this part shall conform with this requirement by limiting the amount of CDBG funds obligated for planning plus administration during each program year to an amount no greater than 20 percent of the sum of its entitlement grant made for that program year (if any) plus the program income received by the recipient and its subrecipients (if any) during that program year."

24 CFR 570.206 states in part:

"Payment of reasonable administrative costs and carrying charges related to the planning and execution of community development activities assisted in whole or in part with funds provided under this part and, where applicable, housing activities (described in paragraph (g) of this section) covered in the recipient's housing assistance plan. This does not include staff and overhead costs directly related to carrying out activities eligible under §570.201 through §570.204, since those costs are eligible as part of such activities.

(a) *General management, oversight and coordination.* Reasonable costs of overall program management, coordination, monitoring, and evaluation. Such costs include, but are not necessarily limited to, necessary expenditures for the following:

- (1) Salaries, wages, and related costs of the recipient's staff, the staff of local public agencies, or other staff engaged in program administration. In charging costs to this category the recipient may either include the entire salary, wages, and related costs allocable to the program of each person whose *primary* responsibilities with regard to the program involve program administration assignments, or the pro rata share of the salary, wages, and related costs of each person whose job includes *any* program administration assignments. The recipient may use only one of these methods during the program year (or the grant period for grants under subpart F). . . ."

REDEVELOPMENT COMMISSION
CITY OF HAMMOND
FEDERAL FINDINGS
(Continued)

The failure to materially comply with the compliance requirements that have a direct and material effect on the program places the City at risk of not receiving additional federal funding.

We recommended that the City comply with the grant agreement and the compliance requirements listed above.

FINDING 2013-006 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218
Federal Award Numbers: B08MN180006, B11MN180006

The City receives Neighborhood Stabilization Program (NSP) funds for the acquisition and rehabilitation of foreclosed and/or vacant residential homes. Of the thirteen NSP real properties sold in 2013, the official City Capital Assets Ledger did not report the federal percentage for twelve properties, incorrectly reported the net sale proceeds (disposal) amounts for two properties, and incorrectly reported the disposal date for one property. The City does not maintain records that adequately identify equipment and other property acquired with federal funds by indicating a federal percentage. Although the City's capital asset accounting software has the capability of separately identifying items acquired with federal funds, this information is not entered into the system.

24 CFR 85.3 states in part:

"Equipment means tangible, nonexpendable, personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. A grantee may use its own definition of equipment provided that such definition would at least include all equipment defined above."

24 CFR 85.31 states in part:

"(a) Title. Subject to the obligations and conditions set forth in this section, title to real property acquired under a grant or subgrant will vest upon acquisition in the grantee or subgrantee respectively.

(b) Use. Except as otherwise provided by Federal statutes, real property will be used for the originally authorized purposes as long as needed for that purposes, and the grantee or subgrantee shall not dispose of or encumber its title or other interests. . . ."

24 CFR 85.32 states in part:

"(d) Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

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

REDEVELOPMENT COMMISSION
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(Continued)

The failure to materially comply with the compliance requirements over equipment and real property management places the City at risk of not receiving additional federal funding.

We recommended that the City comply with the grant agreement and compliance requirements for Equipment and Real Property Management.

FINDING 2013-007 - REPORTING

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218
Federal Award Numbers: B11MC180006, B12MC180006, B08MN180006, B11MN180006

*Community Development Block Grant - Federal Funding
Accountability and Transparency Act Sub-Award Report*

The City was the prime awardee for a Community Development Block Grant (CDBG). As a prime awardee, the City is required to report in the Federal Funding Accountability and Transparency Act (FFATA) Sub-award Reporting System (FSRS) on its sub-grants in accordance with 2 CFR Chapter 1, part 170, Reporting Sub-award and Executive Compensation Information. Prime awardees are required to file a FFATA sub-award report by the end of the month following the month in which the prime awardee awards any sub-grant equal to or greater than \$25,000. In 2013, the City awarded three subgrantees of at least \$25,000 but no FFATA reports were filed in 2013 or 2014.

*Neighborhood Stabilization Program - Quarterly Performance
Reports on the Disaster Recovery Grant Reporting System*

The Department of Housing and Urban Development (HUD) requires online quarterly performance reports through the Community Development Systems, Disaster Recovery Grant Reporting System (DRGR) for the Neighborhood Stabilization Program (NSP) NSP1 and NSP3. A comparison of the disbursement amounts on the quarterly report and the City's ledger revealed that the City's ledger was not used to complete the reports. The total funds expended per the quarterly reports for 2013 totaled \$2,091,804.91; however, the total amount expended for NSP in 2013 per the City's ledgers totaled \$1,682,405.40; a difference of \$409,399.51. The City was unable to provide documentation to reconcile the City ledgers to the amounts filed in the quarterly reports.

2 CFR, Appendix A to Part 170, states in part:

"a. Reporting of first-tier subawards.

1. *Applicability.* Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a subaward to an entity (see definitions in paragraph e. of this award term).
2. *Where and when to report.*
 - i. You must report each obligating action described in paragraph a.1. of this award term to <http://www.fsrs.gov>.

REDEVELOPMENT COMMISSION
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(Continued)

ii. For subaward information, report no later than the end of the month following the month in which the obligation was made. (For example, if the obligation was made on November 7, 2010, the obligation must be reported by no later than December 31, 2010.)

3. *What to report.* You must report the information about each obligating action that the submission instructions posted at <http://www.fsrs.gov> specify. . . ."

24 CFR 85.20(b) states in part:

"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. . . ."

HUD cannot adequately monitor the grant funds, or adequately assess their needs if reports are not filed or incorrectly completed. No attempt was made to reconcile the City's NSP disbursements ledger to the quarterly reports for HUD. The failure to submit required reports or the submission of inaccurate financial reports could inhibit the City's ability to receive further federal financial assistance.

We recommended that the City prepare accurate and complete reports in accordance with HUD's guidelines.

FINDING 2013-008 - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Federal Agency: Department of Housing and Urban Development
Federal Program: Community Development Block Grants/Entitlement Grants
CFDA Number: 14.218
Federal Award Numbers: B11MC180006, B12MC180006, B08MN180006, B11MN180006

The City prepared a Summary Schedule of Prior Audit Findings (Schedule) as required by OMB Circular A-133. We reviewed the Schedule and noted that management had not taken corrective action as indicated concerning the following findings from the prior audit:

Finding 2012-004 - Internal Controls Over Compliance Requirements That Have a Direct and Material Effect on the CDBG-Entitlement Grants Cluster

Finding 2012-005 - Noncompliance with Equipment and Real Property Management Requirements of the Community Development Block Grants/Entitlement Grants

Finding 2012-007 - Reporting of Community Development Block Grants/Entitlement Grants

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FEDERAL FINDINGS
(Continued)

City officials indicated in the Schedule that these three findings had been corrected. However, there are current findings for these same three requirements for the 2013 Community Development Block Grants/Entitlement Grants. The City did not comply with these requirements as detailed in the following findings:

Finding 2013-004 - Internal Controls Over Community Development Block Grants/Entitlement Grants

Finding 2013-006 - Equipment and Real Property Management

Finding 2013-007 - Reporting

OMB Circular A-133, Subpart C, Section.315 states in part:

"(a) General. The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings. . . .

(b) Summary schedule of prior audit findings. The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards. . . .

(2) When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.

(3) When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the Federal agency's or pass-through entity's management decision, the summary schedule shall provide an explanation. . . ."

The failure to comply with the compliance requirement concerning the Schedule places the City at risk of not receiving additional federal funding.

We recommended that officials review any corrective action listed to ensure an accurate Schedule is prepared.



Thomas M. McDermott, Jr.
Mayor

DEPARTMENT OF PLANNING AND DEVELOPMENT
CITY OF HAMMOND

PHIL TAILLON
Executive Director

CORRECTIVE ACTION PLAN

FINDING 2013-004 – INTERNAL CONTROLS OVER COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS

Contact Person Responsible for Corrective Action: Phil Taillon
Contact Phone Number: (219) 853-6508 Ext. 8

The action plan related to this finding is detailed into the following sections:

- A. Allowable Costs and Cost Principles
- B. Davis-Bacon Act
- C. Equipment and Real Property Management
- D. Matching, Level of Effort, and Earmarking
- E. Period of Availability
- F. Procurement
- G. Suspension and Debarment
- H. Program Income
- I. Reporting
- J. Subrecipient Monitoring
- K. Special Tests and Provisions: Citizen Participation

FINDING: A. Allowable Costs and Cost Principles

The Department and Commission have not designed controls to ensure compliance with the allowable costs and cost principles requirements for CDBG. There are no controls to ensure that payroll expenditures claimed for CDBG were supported by the payroll detail, or that time sheets with allocation by program area were available.

Description of Corrective Action Plan

The City disputes this finding. The Finance Manager has records and documentation that shows ample internal control, documentation of payroll expenditures, and timesheets with allocations by program area.

The City develops a CDBG budget on an annual basis which is approved by the Community Development Manager, the Executive Director of Planning and Community Development, and the City Council as part of the Annual Action Plan that is submitted and ultimately approved by HUD.

The City incurs the cost of payroll and fringe benefits of all Department staff based on approval of the Executive Director.

All Department staff who charge time to CDBG are required to keep a timesheet that tracks time to specific cost objectives. These timesheets are collected and reviewed by the Executive Director and the Departmental Finance Manager.

To reimburse the City for personnel charged to CDBG, the Departmental develops a spreadsheet that tracks the loaded hourly rate of each staff person based on the person's annual salary and fringe benefits. Using the reviewed timesheets, the total cost for the staff person is allocated to each cost objective. As part of the reimbursement process, the reimbursement request is prepared by the Finance Manager and reviewed and approved by the Executive Director.

Going forward, the City will develop and adopt written procedures that document the existing procedures and controls currently in place.

Anticipated Completion Date: June 1, 2015.

FINDING: B. Equipment and Real Property Management

Although the Neighborhood Stabilization Program (NSP) Manager tracked the real property purchased and sold from NSP grant funds, reconciliation with the City's official Capital Assets Ledger was not performed during the audit period. In addition, although the NSP Manager sent email documentation to the Controller's office which detailed the purchase and sale of NSP property, no review was performed to ensure that NSP funded asset purchases and sales were properly recorded in the City's Capital Assets Ledger.

Description of Corrective Action Plan

In response to the previous monitoring, the Housing Manager began reviewing the Capital Assets ledger on a periodic basis and sending email requests to the Controller's office when the Capital Assets ledger needed correction. The NSP Manager notifies the City's Controller's Office via email and copying Planning and Development Management of each sale or acquisition of a NSP home. A standardized format is utilized stating the property address, the fund from which funds were drawn for its acquisition, the acquisition price, the sale price (both full and Net), and the appropriate property ID Number. As of April 25, 2014, the Controller's records was properly reconciled with the Department's records.

Going forward, the Community Development Director and Finance Manager, will include a review of the Capital Assets Ledger as part of the quarterly reporting process in DRGR. All requests for updates to the Controller's office and a current copy of the Capital Assets ledger will be filed as attachments to the NSP quarterly reports.

Anticipated Completion Date: April 25, 2014. The new process of verifying the Capital Assets Ledger as part of the QPR preparation was first done in April 2015.

FINDING: C. Matching, Level of Effort, and Earmarking

25% of NSP funding is earmarked for families whose income does not exceed 50% of the area median income - low income households (LIH). The NSP Rehab Loan Officer maintained files on the individuals and families who met the LIH requirements and the NSP Manager indicated if a disbursement was for a LIH property. However, there were no controls to ensure that disbursements were recorded as

earmarked for LIH, LMMIH (Low, Moderate, and Middle Income Households), or administration in both the City's Ledger and in the HUD Disaster Recovery Grant Reporting (DRGR) System.

Part of the CDBG funding is earmarked for payroll expenditures for administration and program costs. The Department and Commission have not adopted policies and procedures or designed controls to ensure compliance with the earmarking requirements for CDBG, including controls to ensure that disbursements claimed for CDBG and earmarked for payroll expenditures were properly coded for administration and program costs by IDIS (Integrated Disbursement and Information System) number.

Description of Corrective Action Plan

The City disputes this finding. The very structure of the DRGR system forces the City to budget and allocate funds to activities based on their national objective. The system contains a national objective that specifically tracks the budgeted and expended amount for the 25% set-aside for low income beneficiaries. This is the control that ensures disbursements were recorded and earmarked for LIH, LMMIH, and administration. There is no requirement to track this level of programmatic detail in the City's General Ledger. ATTACHMENT #1 is one example of a DRGR report that shows how DRGR collects and tracks the set-aside.

As to the claim that there are no controls in place so that payroll expenditures were properly coded for administration and program costs by IDIS number, the City uses DRGR, not IDIS, to reimburse NSP expenditures. Further, the City does not charge program delivery costs for NSP, only administrative costs. Time allocated to NSP administration is collected on weekly timesheets. To reimburse the City for personnel charged to NSP, the Departmental develops a spreadsheet that tracks the loaded hourly rate of each staff person based on the person's annual salary and fringe benefits. Using the reviewed timesheets, the total cost for the staff person is allocated to each cost objective. As part of the reimbursement process in DRGR, the reimbursement request is prepared by the Finance Manager and reviewed and approved by the Community Development Director.

Going forward, the City will develop and adopt a written procedure that clarifies the existing process and provides for documentation of the existing internal control.

Anticipated Completion Date: June 1, 2015.

FINDING: D. Period of Availability

The Department and Commission have not adopted policies and procedures or designed controls to ensure compliance with the CDBG requirements for period of availability. There are no controls to ensure that vendor and payroll expenditures claimed for CDBG were incurred after the effective date of the grant agreement or meet the six requirements if for pre-award costs prior to the effective date of the grant agreement.

Description of Corrective Action Plan

The City disputes this finding. Based on the CDBG regulations, the City is allowed to incur costs prior to the effective date of the grant agreement provided the following:

- The activity for which the costs are being incurred is included in a consolidated plan and action plan;

- citizens are advised of the extent to which these pre-award costs will affect future grants;
- the costs and activities funded are in compliance with the requirements of this part and with the Environmental Review Procedures stated in 24 CFR part 58;
- the activity for which payment is being made complies with the statutory and regulatory provisions in effect at the time the costs are paid for with CDBG funds;
- CDBG payment will be made during a time no longer than the next two program years following the effective date of the grant agreement or amendment in which the activity is first included; and
- the total amount of pre-award costs to be paid during any program year pursuant to this provision is no more than the greater of 25 percent of the amount of the grant made for that year or \$300,000.

The City incurred administrative costs before the effective date of the grant agreement. Every year the City describes the use of funds for administration in the Annual Action Plan, prepares an environmental review, and complies with the statutory and regulatory provisions associated with the use of administrative funds, including not obligating more than 20% of funds for administration an planning purposes.

Going forward, the City will develop and adopt a written procedure that clarifies the existing process and calls for documentation of approval from the Executive Director before pre-award costs are incurred in the future.

Anticipated Completion Date: June 1, 2015.

FINDING: E. Procurement

The Department and Commission have not adopted policies and procedures or designed controls to ensure compliance with the requirements for procurement. The Department did not have controls in place to ensure that all construction change orders were approved by the Commission and that the total of all change orders that increase the scope of the project did not exceed twenty percent (20%) of the amount of the original contract.

Description of Corrective Action Plan

The City will develop and adopt policies that guide procurement and contract management, including the review and approval of all change orders.

Anticipated Completion Date: June 1, 2015.

FINDING: F. Suspension and Debarment

The Department adopted the following policy for determining whether or not a vendor had been suspended or excluded from doing business with the Federal government: "Before executing any contracts equal to or exceeding \$25,000, the City will ensure that the contractor is not suspended or debarred from working on federally-funded contracts by searching the Internet-based System for Award Management (www.sam.gov). The City will document that the selected contractor has not been

suspended or debarred by printing out the search screen from the SAM.gov website and including the printout in the project file."

Procedures to monitor or review compliance with the City's established procedures and the federal requirements regarding suspension and debarment were not implemented.

Description of Corrective Action Plan

The City will develop and adopt policies that guide procurement and contract management, including the determination of debarment and suspension. Going forward, the printed documentation from sam.gov will be included as an attachment to the contract.

Anticipated Completion Date: June 1, 2015.

FINDING: G. Program Income

The City purchased foreclosed homes with NSP funds. The foreclosed homes were refurbished with NSP funds and then sold. Program income was generated when the previously foreclosed homes were sold. The City did not have effective controls in place to ensure that program income generated from NSP home sales was correctly recorded or monitored.

Description of Corrective Action Plan

At the time of closing of each NSP property, the proceeds from the sale were transferred from the Housing Manager to the Department Finance Manager. The Finance Manager recorded the receipt in the Department ledger and forwarded the check to the Controller for receipt into the General Ledger.

The Housing Manager included the reporting of program income in the quarterly report in DRGR, as required by HUD. As part of the drawdown process, the Finance Manager and Housing Manager would reconcile the amounts of program income recorded in DRGR, the Departmental ledger, and the City's general ledger.

Going forward, the City will develop and adopt written procedures that detail the recording and monitoring of program income.

Anticipated Completion Date: July 1, 2015.

FINDING: H. Reporting

The Department and Commission have not designed effective controls to ensure compliance with the reporting requirements of the programs. Controls were not implemented to ensure that all required federal reports are submitted and that NSP reports were accurate.

Description of Corrective Action Plan:

Going forward, the City will develop and adopt written procedures that detail the reporting procedures for NSP.

Anticipated Completion Date: June 1, 2015.

FINDING: I. Subrecipient Monitoring

The Department and Commission have not designed effective controls to ensure compliance with the subrecipient monitoring requirements of the program. CDBG funds were distributed to various subrecipients and local nonprofit organizations. The Department did not have procedures to monitor subrecipients and to ensure that they obtained an A-133 audit and provided any findings to the Department when applicable.

Description of Corrective Action Plan:

The City has updated its CDBG subrecipient agreement to include language that mandates subrecipients to report and comply with the updated audit requirements that went into effect in December 2014. See ATTACHMENT #02 (Updated Agreement).

Anticipated Completion Date: April 2015.

FINDING: J. Special Tests and Provisions: Citizen Participation

The Department and Commission have not adopted policies and procedures or designed controls to ensure compliance with citizen participation requirements. One employee is in charge of ensuring compliance with citizen participation requirements. A consultant was also hired to assist with citizen participation. The employee prepared the citizen participation plan; however, documentation to indicate oversight and review of the compliance with the annual requirements was not provided.

Description of Corrective Action Plan:

The City disputes this finding. The statement that one employee is in charge of ensuring compliance with citizen participation requirements is incorrect. The process for preparing the required planning documents, including the citizen participation requirements of public notice, public comment periods, and public hearings, is a collective effort that includes the Executive Director, the Community Development Director, the Social Service Coordinator, and the City's HUD consultant.

The City has adopted and follows a Citizen Participation Plan to prepare its Consolidated Plan, Annual Action Plan, and its annual report, as well as substantial amendments to these documents.

Going forward, the City will develop and adopt a grants management schedule that includes all required citizen participation planning tasks. The City will document review and completion of the required tasks by management staff, including the Community Development Director and the Executive Director.

Anticipated Completion Date: June 1, 2015.

FINDING 2013-005 - ALLOWABLE COSTS AND COST PRINCIPLES, EARMARKING

Contact Person Responsible for Corrective Action: Phil Taillon
Contact Phone Number: (219) 853-6508 Ext. 8

FINDING: Allowable Costs and Cost Principles

The City did not comply with the allowable costs and cost principles requirements of the CDBG program when reimbursement was requested for payroll costs originally disbursed in October 2011 through June 2012. The Department of Housing and Urban Development (HUD) requires that CDBG requests for reimbursement of payroll costs be supported by time sheets allocating employee time by project or general administrative activities.

On March 28, 2013, the City requested reimbursement of \$399,554.97 in payroll costs originally disbursed in October 2011 through June 2012. This was the only voucher in 2013 requesting reimbursement for payroll costs and included both grant B11MC180006 and grant B12MC180006. The total payroll amounts were supported by time sheets; however, the amounts claimed by project were \$88,671.37 in excess of the supported time allocation documents. The officials requested the amounts by project based upon the budget amounts available and not yet drawn; not on the actual payroll costs with time sheet allocation documentation.

Description of Corrective Action Plan

The City agrees that the payroll reimbursement in question was not properly reviewed and funds were reimbursed against the wrong IDIS activity numbers. The City will reconcile the payroll in question. Going forward, the City will update written policies and procedures to review and approve payroll draws.

It should be noted that the auditor misinterprets several federal regulations in this finding. Specifically:

- The auditor cites the City's failure to comply with the "earmarking" requirements of CDBG and cites 24 CFR 570.200(g) describing the limitation on planning and administrative costs. **This regulation is based on the amount of funds obligated to planning and administrative costs.** Every year the City adopts a CDBG budget where planning and administrative costs is at or below 20% of the annual allocation. At the end of every year, the City has submitted to HUD's review the PR26 CDBG Financial Summary Report documenting compliance with this limitation.

Anticipated Completion Date: June 1, 2015.

FINDING 2013-006 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

Contact Person Responsible for Corrective Action: Phil Taillon
Contact Phone Number: (219) 853-6508 Ext. 8

FINDING

The City receives Neighborhood Stabilization Program (NSP) funds for the acquisition and rehabilitation of foreclosed and/or vacant residential homes. Of the thirteen NSP real properties sold in 2013, the official City Capital Assets Ledger did not report the federal percentage for twelve properties, incorrectly reported the net sale proceeds (disposal) amounts for two properties, and incorrectly reported the disposal date for one property. The City does not maintain records that adequately identify equipment

and other property acquired with federal funds by indicating a federal percentage. Although the City's capital asset accounting software has the capability of separately identifying items acquired with federal funds, this information is not entered into the system.

Description of Corrective Action Plan

In response to the previous monitoring, the Housing Manager began reviewing the Capital Assets ledger on a periodic basis and sending email requests to the Controller's office when the Capital Assets ledger needed correction. The NSP Manager notifies the City's Controller's Office via email and copying Planning and Development Management of each sale or acquisition of a NSP home. A standardized format is utilized stating the property address, the fund from which funds were drawn for its acquisition, the acquisition price, the sale price (both full and Net), and the appropriate property ID Number. As of April 25, 2014, the Controller's records was properly reconciled with the Department's records.

Going forward, the Community Development Director and Finance Manager, will include a review of the Capital Assets Ledger as part of the quarterly reporting process in DRGR. All requests for updates to the Controller's office and a current copy of the Capital Assets ledger will be filed as attachments to the NSP quarterly reports.

Anticipated Completion Date: April 25, 2014. The new process of verifying the Capital Assets Ledger as part of the QPR preparation was first done in April 2015.

FINDING 2013-007 - REPORTING

Contact Person Responsible for Corrective Action: Phil Taillon
Contact Phone Number: (219) 853-6508 Ext. 8

FINDING

The City was the prime awardee for a Community Development Block Grant (CDBG). As a prime awardee, the City is required to report in the Federal Funding Accountability and Transparency Act (FFATA) Sub-award Reporting System (FSRS) on its sub-grants in accordance with 2 CFR Chapter 1, part 170, Reporting Sub-award and Executive Compensation Information. Prime awardees are required to file a FFATA sub-award report by the end of the month following the month in which the prime awardee awards any sub-grant equal to or greater than \$25,000. In 2013, the City awarded three subgrantees over \$25,000 but no FFATA reports were filed in 2013 or 2014.

The U.S. Department of Housing and Urban Development (HUD) requires online quarterly performance reports through the Community Development Systems, Disaster Recovery Grant Reporting System (DRGR) for the Neighborhood Stabilization Program (NSP) NSP1 and NSP3. A comparison of the disbursement amounts on the quarterly report and the City's ledger revealed that the City's ledger was not used to complete the reports. The total funds expended per the quarterly reports for 2013 totaled \$2,091,804.91; however, the total amount expended for NSP in 2013 per the City's ledgers totaled \$1,682,405.40; a difference of \$409,399.51. The City was unable to provide documentation to reconcile the City ledgers to the amounts filed in the quarterly reports.

Description of Corrective Action Plan

Going forward, the City will develop and adopt written procedures detailing federal reporting procedures that specifically include FFATA reports. The procedures will also include detailed instruction on completing NSP reporting requirements, of which reconciliation with the General Ledger will be a part.

Anticipated Completion Date: June 1, 2015

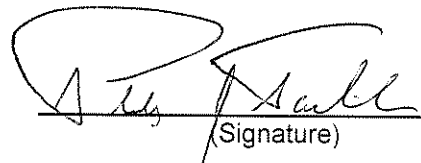
FINDING 2013-008 – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Contact Person Responsible for Corrective Action: Heather Garay
Contact Phone Number: INSERT

Description of Corrective Action Plan

In 2014, the City worked with the local HUD office to close all monitoring findings on the 2012 schedule of audit findings. HUD's correspondence regarding the audit findings is included as Attachment #03. In the future, the City will work closely with the State Board of Audits to properly prepare the next schedule of prior audit findings.

Anticipated Completion Date: Next audit



(Signature)

Executive Director

(Title)

5-15-2015

(Date)

ATTACHMENT 01

Grantee: Hammond, IN, HUD Office: Fin Rept01c: DRAWS- Budget and
 Indianapolis Field Office, Grant Disbursements by National Objective
 Status: Active, Metrics: Amount - Grant Level
 Disbursed

Grant Number	National Objective	N/A	NSP Only - LH - 25% Set- Aside	NSP Only - LMMI	Total
B-08-MN-18-0006		\$376,625.07	\$2,184,706.28	\$1,299,141.65	\$3,860,473.00
B-11-MN-18-0006		\$124,393.00	\$306,552.32	\$548,676.59	\$979,621.91
Total		\$501,018.07	\$2,491,258.60	\$1,847,818.24	\$4,840,094.91

ATTACHMENT 02

COMMUNITY DEVELOPMENT BLOCK GRANT GRANT AGREEMENT

This Agreement entered into this 1st day of April, 2015 by and between the City of Hammond, Indiana, acting by and through its Department of Planning and Development, hereinafter called the DEPARTMENT, and **HAMMOND LEGAL AID CLINIC**, 5231 Hohman Street Hammond, Indiana, 46320 hereinafter called the SUBRECIPIENT.

WITNESSETH THAT:

WHEREAS, the Community Development Block Grant (CDBG), is authorized by the Housing and Community Development Act of 1974, as amended, and is administered by the U.S. Department of Housing and Urban Development; and

WHEREAS, the use of CDBG funds, identified as #14.218 in the Catalog of Federal Domestic Assistance, is governed by the U.S. Federal Regulations 24 CFR Part 570; and

WHEREAS, the City of Hammond, is a recipient of CDBG funds received from HUD through its submission of its 2015 Annual Action Plan which included the use of CDBG funds for public service activities; and

WHEREAS, the DEPARTMENT, as the Mayor's Representative for Planning and Community Development, is responsible for the administration of CDBG funds; and

WHEREAS, the SUBRECIPIENT is a nonprofit organization that will provide a public service activity that provides Hammond residents with free legal assistance, more fully described in the CDBG Application for Funding attached hereto as Exhibit "A" ("Program"); and

WHEREAS, the SUBRECIPIENT represents that it can administer public service activities with CDBG funds in a manner which complies with all applicable federal regulations; and

WHEREAS, the DEPARTMENT wishes to provide a subaward to the SUBRECIPIENT to administer the Program;

NOW THEREFORE, the parties hereto do mutually agree as follows:

1. TERM

The term of this Agreement shall commence on **April 1, 2015** and, unless terminated earlier pursuant to the terms of this Agreement, shall continue thereafter until **March 31, 2016**.

2. STATEMENT OF WORK

The SUBRECIPIENT agrees to exert its best professional efforts to perform and carry out in a manner satisfactory to the DEPARTMENT, the services set forth in Exhibit A, entitled "Program," attached hereto and by reference incorporated herein and made a part of hereof.

The SUBRECIPIENT shall administer the Program for the whole of the term of the Agreement.

The SUBRECIPIENT shall administer the Program in compliance with the CDBG requirements and in a manner that meets the CDBG national objective(s) of 24 CFR 570.208. SUBRECIPIENT covenants the Program will be administered under its direct supervision and that all personnel engaged in the Program shall be fully qualified and authorized and permitted under applicable law to perform such services.

3. RECORDS AND REPORTS

On a quarterly basis, the SUBRECIPIENT shall submit to the DEPARTMENT, in a form acceptable to the DEPARTMENT, a performance report summarizing the number of unduplicated persons served, including race, ethnicity, and income data. The performance report shall be submitted within 30 days of the close of each quarter.

The SUBRECIPIENT shall retain all project files, financial records, and any other documents related to the Program for a period of three (3) years from the date of the close out of this Agreement, except in the following cases:

- If any litigation, claim, or audit is started before the expiration of the 3-year period, the records must be retained until all litigation, claims, or audit findings involving the records have been resolved and final action taken.
- When the SUBRECIPIENT is notified in writing by the DEPARTMENT to extend the retention period.
- Records for real property and equipment acquired with Federal funds must be retained for 3 years after final disposition.

The DEPARTMENT shall monitor and evaluate SUBRECIPIENT's performance under this Agreement to determine compliance with this Agreement and CDBG Requirements. SUBRECIPIENT shall cooperate with DEPARTMENT and any federal auditors authorized by the DEPARTMENT and shall make available all information, documents, and records reasonably requested and shall provide DEPARTMENT the reasonable right of access to both records and personnel during normal business hours for the purpose of assuring compliance with this Agreement and evaluating performance hereunder. The rights of access in this section are not limited to the required retention period but last as long as the records are retained.

4. METHOD OF PAYMENT

The SUBRECIPIENT shall submit to the DEPARTMENT a request for payment, in a form acceptable to the DEPARTMENT, on a monthly basis for the term of the Agreement. Said request shall be accompanied with supporting documentation, including but not limited to paid receipts, invoices and timesheets, to allow the DEPARTMENT to determine compliance with applicable federal regulations, including cost allowability.

An authorized official for the SUBRECIPIENT must provide a signed certification with each request that states the following: “By signing this report, I certify to the best of my knowledge and belief that the report is true, complete, and accurate, and the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the Federal award. I am aware that any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me to criminal, civil or administrative penalties for fraud, false statements, false claims or otherwise. (U.S. Code Title 18, Section 1001 and Title 31, Sections 3729-3730 and 3801-3812).”

The DEPARTMENT shall pay all requests for payment which are approved pursuant to this Agreement within forty-five days of receipt. It is expressly understood and agreed that in no event will the total payment to the SUBRECIPIENT exceed the maximum sum of **FORTY FIVE THOUSAND DOLLARS (\$45,000.00)**.

If the DEPARTMENT disallows any cost submitted by the SUBRECIPIENT, within 10 business days the DEPARTMENT will provide written notification to the SUBRECIPIENT of the disallowance, including any corrective action necessary to process payment.

5. PROGRAM INCOME

Any income generated by the SUBRECIPIENT from the use of CDBG funds governed by this Agreement shall be considered CDBG program income. All CDBG program income shall be retained by the SUBRECIPIENT for the term of this Agreement. The use of all CDBG program income is reserved specifically for services outlined in the Statement of Work and is subject to the terms of this Agreement.

6. UNIFORM ADMINISTRATIVE REQUIREMENTS

The SUBRECIPIENT shall adhere to and follow the Uniform Administrative Requirements found in the U.S. federal regulations at 2 CFR Part 200.

The SUBRECIPIENT shall establish and maintain effective internal control over CDBG funds made available through this Agreement to provide reasonable assurance

that the Program is administered in compliance with applicable federal statutes, regulations, and the terms and conditions of this Agreement. This includes evaluation and internal monitoring of the Program and prompt, appropriate action when instances of noncompliance are identified.

The SUBRECIPIENT shall follow a written procurement policy that allows for full and open competition that meets the minimum standards of the U.S. federal regulations at 2 CFR 200.317 through 200.326.

The SUBRECIPIENT shall take reasonable measures to safeguard protected personally identifiable information and other information the DEPARTMENT designates as sensitive consistent with applicable Federal, state and local laws regarding privacy and obligations of confidentiality.

The SUBRECIPIENT shall maintain a financial management system that identifies all federal awards received and expended and the federal programs under which they were received, including:

- The CFDA title and number,
- Federal award identification number and year,
- Name of the Federal agency, and
- name of the pass-through entity, if any.

The SUBRECIPIENT shall follow written financial management policies and procedures that, at a minimum, provide for:

- determination the allowability of costs in accordance with the terms and conditions of this Agreement and the federal cost principles published in the U.S. federal regulations at 2 CFR 200 Subpart E;
- effective control over, and accountability for, all funds, property, and other assets to ensure all assets are safeguarded and they are used solely for authorized purposes; and
- accurate financial reporting on federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

7. AUDIT REQUIREMENTS

Within thirty (30) days of the close of the SUBRECIPIENT's fiscal year, the SUBRECIPIENT shall provide to the DEPARTMENT a certification stating the total amount of federal awards expended in the fiscal year. The certification shall be signed by an authorized official.

The SUBRECIPIENT agrees to have a single or program-specific audit conducted in accordance with the provisions of 2 CFR 200 Subpart F if the SUBRECIPIENT expends \$750,000 or more in federal awards during any fiscal year that overlaps with the term of this Agreement. The SUBRECIPIENT shall submit a copy of the audit to the DEPARTMENT and the Federal Audit Clearinghouse (FAC) within 30 calendar days after receipt of the auditor's report(s). The SUBRECIPIENT shall make copies of the audit available for public inspection for three years from the date of submission to the FAC.

The DEPARTMENT shall issue a management decision for audit findings that relate to this Agreement within six months of acceptance of the audit report by the FAC.

8. CONFLICT OF INTEREST

The SUBRECIPIENT shall maintain written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award and administration of contracts. The standards of conduct must provide for disciplinary actions to be applied for violations of such standards by officers, employees, or agents of the SUBRECIPIENT. If the SUBRECIPIENT has a parent, affiliate, or subsidiary organization, the standards of conduct must cover organizational conflicts of interest to ensure the SUBRECIPIENT is able to be impartial in conducting a procurement action involving a related organization.

At a minimum, the standards of conduct shall include any person who is an employee, agent, consultant, officer, or elected official or appointed official of the SUBRECIPIENT. No covered persons who exercise or have exercised any functions or responsibilities with respect to CDBG activities assisted under this part, or who are in a position to participate in a decision making process or gain inside information with regard to such activities, may obtain a financial interest or benefit from a CDBG-assisted activity, or have a financial interest in any contract, subcontract, or agreement with respect to a CDBG-assisted activity, or with respect to the proceeds of the CDBG-assisted activity, either for themselves or those with whom they have business or immediate family ties, during their tenure or for one year thereafter.

Upon written request, the DEPARTMENT may grant an exception to the conflict of interest provisions on a case-by-case basis.

9. OTHER PROGRAM REQUIREMENTS

The SUBRECIPIENT agrees to administer the Program in compliance with the following federal program requirements:

Section 109 of the Housing and Community Development Act of 1974 requires that no person in the United States shall on the grounds of race, color, national origin, religion, or sex be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Federal financial

assistance made available pursuant to the Act. Section 109 also directs that the prohibitions against discrimination on the basis of age under the Age Discrimination Act and the prohibitions against discrimination on the basis of disability under Section 504 shall apply to programs or activities receiving Federal financial assistance under Title I programs.

Equal Opportunity requirements as described in Executive Order 11246, as amended by Executive Orders 11375, 11478, 12086, and 12107.

Equal Protection of the Laws for Faith-Based and Community Organizations as described in Executive Order 13279 and the implementing regulations at 41 CFR chapter 60.

Section 3 of the Housing and Urban Development Act of 1968 (12 U.S.C. 1701u) and implementing regulations at 24 CFR part 135.

The Lead-Based Paint Poisoning Prevention Act (42 U.S.C. 4821-4846), the Residential Lead-Based Paint Hazard Reduction Act of 1992 (42 U.S.C. 4851-4856), and implementing regulations at part 35, subparts A, B, J, K, and R of this part apply.

Exclusion of Debarred and Suspended Contractor requirements as described in 2 CFR Part 180.

Certain newly legalized aliens, as described in 24 CFR part 49, are not eligible to apply for CDBG benefits, including financial assistance, public services, jobs and access to new or rehabilitated housing and other facilities made available with CDBG. Benefits do not include relocation services and payments to which persons displaced are entitled by law (24 CFR §570.613).

A building or facility designed, constructed, or altered with CDBG funds governed by this Agreement that meets the definition of "residential structure" as defined in 24 CFR 40.2 or the definition of "building" as defined in 41 CFR 101-19.602(a) is subject to the requirements of the Architectural Barriers Act of 1968 (42 U.S.C. 4151-4157) and shall comply with the Uniform Federal Accessibility Standards (appendix A to 24 CFR part 40 for residential structures, and appendix A to 41 CFR part 101-19, subpart 101-19.6, for general type buildings).

The Americans with Disabilities Act (42 U.S.C. 12131; 47 U.S.C. 155, 201, 218 and 225) (ADA) provides comprehensive civil rights to individuals with disabilities in the areas of employment, public accommodations, State and local government services, and telecommunications.

10. CLOSEOUT AND REVERSION OF ASSETS

The DEPARTMENT will close out this Agreement when it determines that all applicable administrative actions and all required work of the Agreement have been completed by the SUBRECIPIENT.

Unless provided an extension through written notification by the DEPARTMENT, the SUBRECIPIENT shall complete the following actions no later than 30 calendar days after the end date of the term of this Agreement:

- Submit, all financial, performance, and other reports as required by the terms of this Agreement;
- Liquidate all obligations incurred under the Agreement; and
- Transfer to the DEPARTMENT any accounts receivable attributable to the use of CDBG funds, including CDBG program income.

Notwithstanding the expiration or earlier termination of this Agreement, SUBRECIPIENT's obligations to the DEPARTMENT shall not terminate until all closeout requirements are completed.

The following obligations of the SUBRECIPIENT shall survive the termination of this Agreement:

- SUBRECIPIENT'S indemnity obligations;
- the obligation to cause audits to be performed relating to SUBRECIPIENT'S activities and costs under this Agreement;
- the obligation to repay to DEPARTMENT any CDBG proceeds improperly disbursed to SUBRECIPIENT or disbursed for ineligible expenditures;
- any other obligations which cannot by their nature be performed until after the expiration of the Agreement such as the submittal of final payment request and performance reports.

Any real or personal property purchased in whole or in part with CDBG funds provided under this Agreement are subject to the following requirements that shall survive the termination of this Agreement:

- insurance and reporting requirements regarding real and personal property acquired with federal funds in accordance with the uniform administrative requirements contained in the U.S. federal regulations published at 2 CFR Part 200; and
- For real property under the SUBRECIPIENT control that was acquired or improved in whole or in part with CDBG funds in excess of \$25,000, said property shall be used to meet one of the national objectives in 24 CFR 570.208 for five years after close out of this Agreement. If the property is disposed of within five years of the close out of this Agreement, the SUBRECIPIENT shall reimburse the DEPARTMENT the a percentage of the current fair market value of the property equal to the percentage of CDBG funds expended to the overall acquisition and improvement cost of the property.

11. SUSPENSION AND TERMINATION

Termination for Convenience. This Agreement may be terminated by either party if the SUBRECIPIENT and DEPARTMENT mutually agree in writing to its termination and upon the termination conditions, including the effective date and in the case of partial termination, the portion to be terminated.

If, through any cause, the SUBRECIPIENT shall fail to fulfill in timely and proper manner its obligations under this Agreement, or if the SUBRECIPIENT shall violate any of the covenants, agreements, or stipulations of this Agreement, the DEPARTMENT shall thereupon have the right to terminate this Agreement by giving written notice to the SUBRECIPIENT of such termination and specifying the effective date thereof, at least five days before the effective date of such termination. In such event, all finished or unfinished documents and reports prepared by the SUBRECIPIENT under this Agreement shall, at the option of the DEPARTMENT, become its property and SUBRECIPIENT shall be entitled to receive just and equitable payment for any satisfactory work completed subject to the limitations of this Agreement.

12. MANDATORY DISCLOSURES

The SUBRECIPIENT shall provide written notice to the DEPARTMENT within 5 days of all potential conflicts of interest and violations of criminal law involving fraud, bribery, or gratuity violations potentially affecting this Agreement. Failure to make required disclosures can result in termination of the Agreement and suspension or debarment from future federal awards.

13. FINDINGS CONFIDENTIAL

Any reports, information or data given to or prepared by the SUBRECIPIENT concerning the DEPARTMENT under this Agreement shall not be made available to any individual or organization by the SUBRECIPIENT without first submitting them to the DEPARTMENT.

14. ENTIRE AGREEMENT, WAIVERS, AND AMENDMENTS

This Agreement integrates all of the terms and conditions mentioned herein, or incidental hereto, and supersedes all negotiations and previous agreements between the parties with respect to all or any part of the subject matter hereof. All waivers of the provisions of this Agreement must be in writing and signed by the appropriate authorities of the party to be charged, and all amendments and modifications hereto must be in writing and signed by the appropriate authorities of DEPARTMENT and SUBRECIPIENT.

The DEPARTMENT may, from time to time, request changes in the Statement of Work to be performed hereunder. Such changes, including any increase or decrease in the amount of compensation which are mutually agreed upon between the DEPARTMENT and the SUBRECIPIENT shall be incorporated into a written amendment to the Agreement.

15. ASSIGNABILITY AND SUBCONTRACTING

The SUBRECIPIENT shall not assign any interest in this Agreement. The SUBRECIPIENT shall not subcontract any of the services provided for in this Agreement, without first obtaining written consent of the DEPARTMENT.

16. SEVERABILITY

If any term, provision, covenant, or condition of this Agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remainder of this Agreement shall not be affected thereby to the extent such remaining provisions are not rendered impractical to perform taking into consideration the purposes of this Agreement.

17. SUBAWARD INFORMATION

SUBRECIPIENT NAME:	Hammond Legal Aid Clinic
Subrecipient ID (DUNS):	INSERT
Federal Award Identification Number:	B-15-MC-18-006
Federal Award Date:	June 1st, 2015 (estimated)
Period of Performance:	April 1st, 2015 to March 31st, 2016
Federal Funds Obligated by this Agreement:	\$45,000.00
Total Federal Funds Obligated to SUBRECIPIENT:	\$45,000.00
Total Amount of the Federal Award:	\$1,965,154
Federal award project description:	Provision of public services to improve the suitability of living environments, primarily for the benefit of low and moderate income persons.
Name of Federal awarding agency:	Dept. of Housing Urban Development
Name of pass-through entity:	City of Hammond, Indiana
Award Official Contact information:	Phillip Taillon 5925 Calumet Avenue Hammond IN 46320 219-853-6300
CFDA Number:	14.218
CFDA Name:	Community Development Block Grant

Identification of R&D: **No**
Indirect cost rate for the Federal award: **10%**

(The remainder of this page is intentionally left blank; signature page to follow)

SIGNATURE PAGE

HAMMOND LEGAL AID CLINIC

BY: _____
KRIS COSTA SAKELARIS, Executive Director

DATE: _____

**CITY OF HAMMOND, INDIANA
DEPARTMENT OF PLANNING AND DEVELOPMENT**

BY: _____
PHIL TAILLON, Executive Director

DATE: _____

**CITY OF HAMMOND, INDIANA
REDEVELOPMENT COMMISSION**

BY: _____
TONY HAUPRICH, President

DATE: _____

ATTEST BY: _____

DATE: _____

THOMAS M. MCDERMOTT, JR., Mayor

DATE: _____

EXHIBIT A: PROGRAM DESCRIPTION

Grantee: Hammond, IN, HUD Office: Fin Rept01c: DRAWS- Budget and
 Indianapolis Field Office, Grant Disbursements by National Objective
 Status: Active, Metrics: Amount - Grant Level
 Disbursed

Grant Number	National Objective	N/A	NSP Only - LH - 25% Set- Aside	NSP Only - LMMI	Total
B-08-MN-18-0006		\$376,625.07	\$2,184,706.28	\$1,299,141.65	\$3,860,473.00
B-11-MN-18-0006		\$124,393.00	\$306,552.32	\$548,676.59	\$979,621.91
Total		\$501,018.07	\$2,491,258.60	\$1,847,818.24	\$4,840,094.91



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Community Planning & Development
151 North Delaware Street, Suite 1200
Indianapolis, Indiana 46204-2526
(317) 226-6303 (317) 614-6101 (FAX)
www.hud.gov espanol.hud.gov

Mr. Phil Taillon
Executive Director
Department of Planning and Development
649 Conkey Street
Hammond, IN 46234

OCT 14 2014

Dear Mr. Taillon:

SUBJECT: Audit Report: City of Hammond, IN
Period Ending: December 31, 2012
Audit Control #: 12-11
Program Areas: Community Development Block Grant – Entitlement
Neighborhood Stabilization Program I & III
Internal Controls

We have received your response dated October 10, 2014 to our correspondence regarding the above referenced audit prepared by the Indiana State Board of Accounts. The following is a status of the remaining open finding controlled by the U.S. Department of Housing and Urban Development (HUD) from this Audit:

Finding 2012-01 - Internal Control Over Financial Transactions and Reporting

Condition: The City has not established effective controls to allow for the proper reporting of the City's financial transactions and cash and investment balances.

Criteria or Specific Requirement: We noted deficiencies in the internal control system of the City related to financial transactions and reporting. Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the City's audited financial statement and then determining how those identified risks should be managed.

HUD Management Decision: The HUD Office of Community Planning and Development (CPD) has determined that we sustain the auditor's finding. The specific amounts were deemed material by the auditor and led to misstatements in the financial statement which could lead to larger financial issues.

HUD Initial Required Corrective Action: The City of Hammond must submit documentation demonstrating the changes that have been made and the effect the changes have had on financial reporting.

OCT 16 2014

REDEVELOPMENT COMMISSION
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS

REIMBURSEMENT OF CANCELLED TRAVEL

A Redevelopment Commission Board member was reimbursed \$1,061 for conference expenses (airline and hotel) paid by the Board member. The Board member did not attend the conference due to a family illness. The City's travel policy does not address the City's responsibility when personal emergencies occur and travel plans are changed.

Each governmental unit should adopt a written travel policy in conformity with applicable statutes. Reimbursement for lodging and meals should be based upon actual receipts for amounts paid unless otherwise authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

TAX INCREMENT FINANCING (TIF) DISSOLUTION

During 2012 and 2013, the following excess tax increment financing (TIF) funds were transferred or receipted directly as follows:

Years	Intended TIF Fund	Fund Recorded In or Transferred To	Amount
2012	North Hammond TIF (280)	General	\$ 4,639,101
2012	North Hammond TIF (280)	Redevelopment	428,519
2012	Unilever TIF (283)	General	2,456,764
2012	Unilever TIF (283)	Redevelopment	<u>450,000</u>
	Subtotal 2012		<u>7,974,384</u>
2013	North Hammond TIF (280)	General	<u>1,132,446</u>
	Total TIF Distributions Inaccurately Recorded		<u>\$ 9,106,830</u>

Rather than transfer excess TIF monies to other funds, excess cash and investment balances above the amount necessary to cover allowable debt payments and any other statutorily allowed expenses should be reallocated to the respective taxing units. By receipting the excess monies in other funds, it was not possible to determine if the TIF monies were used for expenditures allowed by statute. The uses allowed for any TIF monies received are restricted by statute and are prohibited from being used for the operating expenses of the Redevelopment Commission.

Indiana Code 36-7-14-39(b) states in part:

"(3) Except as otherwise provided in this section, property tax proceeds in excess of those described in subdivisions (1) and (2) shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following:

REDEVELOPMENT COMMISSION
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

- (A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds which are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.
- (B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area.
- (C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under section 27 of this chapter.
- (D) Pay the principal of and interest on bonds issued by the unit to pay for local public improvements that are physically located in or physically connected to that allocation area.
- (E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.
- (F) Make payments on leases payable from allocated tax proceeds in that allocation area under section 25.2 of this chapter.
- (G) Reimburse the unit for expenditures made by it for local public improvements (which include buildings, parking facilities, and other items described in section 25.1(a) of this chapter) that are physically located in or physically connected to that allocation area.
- (H) Reimburse the unit for rentals paid by it for a building or parking facility that is physically located in or physically connected to that allocation area under any lease entered into under IC 36-1-10.
- (I) For property taxes first due and payable before January 1, 2009, pay all or a part of a property tax replacement credit to taxpayers in an allocation area as determined by the redevelopment commission. This credit equals the amount determined under the following STEPS for each taxpayer in a taxing district (as defined in IC 6-1.1-1-20) that contains all or part of the allocation area: . . .
- (J) Pay expenses incurred by the redevelopment commission for local public improvements that are in the allocation area or serving the allocation area. Public improvements include buildings, parking facilities, and other items described in section 25.1(a) of this chapter.
- (K) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located: (i) in the allocation area; and (ii) on a parcel of real property that has been classified as industrial property under the rules of the department of local government finance.
- (L) Pay the costs of carrying out an eligible efficiency project (as defined in IC 36-9-41-1.5) within the unit that established the redevelopment commission. However, property tax proceeds may be used under this clause to pay the costs of carrying out an eligible efficiency project only if those property tax proceeds exceed the amount necessary to do the following: . . .

REDEVELOPMENT COMMISSION
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

The allocation fund may not be used for operating expenses of the commission.

(4) Except as provided in subsection (g), before July 15 of each year, the commission shall do the following:

(A) Determine the amount, if any, by which the assessed value of the taxable property in the allocation area for the most recent assessment date minus the base assessed value, when multiplied by the estimated tax rate of the allocation area, will exceed the amount of assessed value needed to produce the property taxes necessary to make, when due, principal and interest payments on bonds described in subdivision (3), plus the amount necessary for other purposes described in subdivision (3).

(B) Provide a written notice to the county auditor, the fiscal body of the county or municipality that established the department of redevelopment, and the officers who are authorized to fix budgets, tax rates, and tax levies under IC 6-1.1-17-5 for each of the other taxing units that is wholly or partly located within the allocation area. The notice must:

- (i) state the amount, if any, of excess assessed value that the commission has determined may be allocated to the respective taxing units in the manner prescribed in subdivision (1); or
- (ii) state that the commission has determined that there is no excess assessed value that may be allocated to the respective taxing units in the manner prescribed in subdivision (1).

The county auditor shall allocate to the respective taxing units the amount, if any, of excess assessed value determined by the commission. The commission may not authorize an allocation of assessed value to the respective taxing units under this subdivision if to do so would endanger the interests of the holders of bonds described in subdivision (3) or lessors under section 25.3 of this chapter."

PUBLIC WORKS PROJECT

The Redevelopment Commission contracted with a local construction company to refurbish a previously foreclosed home for \$76,296. The total cost of this project was \$94,541. Change orders made during the completion of this project totaled \$18,245 or 24 percent of the original contract amount. The change orders were not signed and approved by the Redevelopment Commission. The invoice attached to the claim did not itemize the change orders so we were unable to determine what changes were made and if they changed the scope of the original project.

Indiana Code 36-1-12-18 states in part:

"(a) If, in the course of the construction, reconstruction, or repair of a public work project, it becomes necessary to change or alter the original specifications, a change order may be issued to add, delete, or change an item or items in the original contract. The change order becomes an addendum to the contract and must be approved and signed by the board and the contractor. . . .

REDEVELOPMENT COMMISSION
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

(d) The total of all change orders issued that increase the scope of the project may not exceed twenty percent (20%) of the amount of the original contract. A change order issued as a result of circumstances that could not have been reasonably foreseen does not increase the scope of the project.

(e) All change orders must be directly related to the original public work project. . . ."

REDEVELOPMENT COMMISSION
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on May 13, 2015, with Philip Taillon, Executive Director; Cathline Navejas, member of the Redevelopment Commission; Owana J. Miller, Community Development Director; Caryn Janiga, Finance Manager of Planning and Development; William Kubal, Consultant; Mark McLaughlin, City Chief of Staff; Heather Garay, City Controller; and Kimberly Fabris, Deputy City Controller.

The contents of this report were discussed on May 18, 2015, with Thomas M. McDermott, Jr., Mayor; Heather Garay, City Controller; Dan Spitale, Vice President of the Common Council; Mark McLaughlin, City Chief of Staff; Kimberly Fabris, Deputy City Controller; Owana J. Miller, Community Development Director; and Caryn Janiga, Finance Manager of Planning and Development.

The contents of this report were mailed on May 28, 2015, to Robert Lendi, former City Controller.

POLICE DEPARTMENT
CITY OF HAMMOND

POLICE DEPARTMENT
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS

PAYROLL DEFICIENCIES

Payment in Advance

Employee compensation, hours, and leave time were reported by the departmental payroll clerks to the Controller's Office on a bi-weekly "Payroll Earnings Forecast" (forecast). The forecasts were submitted for payroll processing by the Monday or Tuesday prior to the pay date, which was on Friday. Salaried employees were paid for the current and subsequent week and, were therefore, paid in advance up to ten days prior to performing the service. This pay also cannot reflect leave time used for the period covered.

Indiana Code 5-7-3-1 states in part: "Public officers may not draw or receive their salaries in advance. . . ."

Leave Policies

The City abided by negotiated union agreements for sick and injured leaves and benefits for police officers and firefighters. Both union agreements were effective for the period of January 1, 2009 through December 31, 2012. Neither agreement specified the details of the policy but instead stated: "The present sick and injured leave policies shall remain unchanged during the term of this Agreement . . ." We could not determine what the policy entailed; therefore, it is possible that overpayments to employees could have occurred.

Each governmental unit should adopt written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the governing board would be considered as written policy. The policy should conform to the requirements of all state and federal regulatory agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Employee Service Records

Time records or an Employee Service Record (General Form No. 99A) were not maintained by the Corporation Counsel, a City employee, for 2013.

The Fire Department did not maintain employee service records. An attendance record was maintained which is similar to the Employee Service Record (General Form No. 99A), but it did not provide information on leave balances, leave accruals, and leave usage. Overtime hours were not recorded on the attendance record. Leave was also not reported on the "Payroll Earnings Forecast" which was certified by the department head.

The Police Department maintained Employee Service Records (General Form No. 99A); however, overtime hours worked were not reported. Leave time was not reported on the "Payroll Earnings Forecast" which was certified by the department head. Additionally, compensatory leave accruals, usage, and balances were not reported. In many instances, the Employee Service Records (General form No. 99A), were not in agreement with the Payroll Earnings Forecast leave time reported.

The Federal Fair Labor Standards Act (FLSA) requires that records of wages paid, daily and weekly hours of work, and the time of day and day of week on which the employee's work week begins be kept for all employees. These requirements can be met by use of the following prescribed general forms:

General Form 99A, Employees' Service Record
General Form 99B, Employee's Earnings Record
General Form 99C, Employee's Weekly Earnings Record

POLICE DEPARTMENT
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

General Form 99C is required only for employees who are not exempt from FLSA, are not on a fixed work schedule, and are not paid weekly.

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor. (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. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

POLICE BUY MONEY

The Common Council has not passed an ordinance establishing the Police Department's Buy Money Program and allowing for the associated expenditures.

The following procedures should be followed if a municipality wishes to obtain an appropriation and make expenditures for buy money or payments to informants:

1. under Indiana Code 36-1-3 an ordinance should be passed allowing this type of program and associated expenditures;
2. an appropriation for such purpose must be obtained in the manner authorized by state statutes;
3. petty cash fund procedures are to be followed as authorized by Indiana Code 36-1-8-3; and
4. a minimum documentation procedure must be followed, similar to either:
 - A. "Office of Criminal Justice Programs 2009 Financial Guide, Part III, Chapter 8: Confidential Funds," published by the U.S. Department of Criminal Justice.
 - B. "Guidelines for Obtaining and Accounting For Confidential Funds Used in Support of Criminal Investigations," (Revised S.O.P. INV-009), by the Indiana State Police Department.

(Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2013)

APPROVAL OF FORMS

The Police Department collects cash bond payments and issues a bond receipt that is prepared in duplicate. One copy is given to the payer and one copy is given to the City Clerk's Office. The City Clerk's Office retains their copy by case. The duplicate copy of the receipt was retained in numerical order during the audit period as required. Therefore, we could not determine if all bond receipts issued by the police department were received by the City Clerk's Office.

POLICE DEPARTMENT
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

POLICE DEPARTMENT
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on May 13, 2015, with John Doughty, Chief of Police; Jeffery Long, Assistant Chief of Police; Heather Garay, City Controller; and Kimberly Fabris, Deputy City Controller.

The contents of this report were discussed on May 18, 2015, with Thomas M. McDermott, Jr., Mayor; Heather Garay, City Controller; Dan Spitale, Vice President of the Common Council; Mark McLaughlin, City Chief of Staff; and Kimberly Fabris, Deputy City Controller.

The contents of this report were mailed on May 28, 2015, to Robert Lendi, former City Controller.

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POLICE PENSION
CITY OF HAMMOND

POLICE PENSION
CITY OF HAMMOND
AUDIT RESULT AND COMMENT

OFFICIAL BOND

The Police Pension Secretary obtained a crime policy instead of an individual Surety Bond conditioned upon the faithful performance of duties and made payable to the State of Indiana. The crime policy was not filed in the Office of the County Recorder.

Indiana Code 36-8-6-3(e), for the 1925 Police Pension Fund, states: "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."

Indiana Code 5-4-1-10 states:

"All official bonds shall be payable to the state of Indiana; and every such bond shall be obligatory to such state, upon the principal and sureties, for the faithful discharge of all duties required of such officer by any law, then or subsequently in force, for the use of any person injured by any breach of the condition thereof."

POLICE PENSION
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on May 13, 2015, with Thomas Fulk, Police Pension Secretary; Heather Garay, City Controller; and Kimberly Fabris, Deputy City Controller.

The contents of this report were discussed on May 18, 2015, with Thomas M. McDermott, Jr., Mayor; Heather Garay, City Controller; Dan Spitale, Vice President of the Common Council; Mark McLaughlin, City Chief of Staff; and Kimberly Fabris, Deputy City Controller.

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FIRE DEPARTMENT
CITY OF HAMMOND

FIRE DEPARTMENT
CITY OF HAMMOND
AUDIT RESULT AND COMMENT

PAYROLL DEFICIENCIES

Payment in Advance

Employee compensation, hours, and leave time were reported by the departmental payroll clerks to the Controller's Office on a bi-weekly "Payroll Earnings Forecast" (forecast). The forecasts were submitted for payroll processing by the Monday or Tuesday prior to the pay date, which was on Friday. Salaried employees were paid for the current and subsequent week and, were therefore, paid in advance up to ten days prior to performing the service. This pay also cannot reflect leave time used for the period covered.

Indiana Code 5-7-3-1 states in part: "Public officers may not draw or receive their salaries in advance. . . ."

Leave Policies

The City abided by negotiated union agreements for sick and injured leaves and benefits for police officers and firefighters. Both union agreements were effective for the period of January 1, 2009 through December 31, 2012. Neither agreement specified the details of the policy but instead stated: "The present sick and injured leave policies shall remain unchanged during the term of this Agreement . . ." We could not determine what the policy entailed; therefore it is possible that overpayments to employees could have occurred.

Each governmental unit should adopt written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the governing board would be considered as written policy. The policy should conform to the requirements of all state and federal regulatory agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Employee Service Records

Time records or an Employee Service Record (General Form No. 99A) were not maintained by the Corporation Counsel, a City employee, for 2013.

FIRE DEPARTMENT
CITY OF HAMMOND
AUDIT RESULT AND COMMENT
(Continued)

The Fire Department did not maintain employee service records. An attendance record was maintained which is similar to the Employee Service Record (General Form No. 99A), but it did not provide information on leave balances, leave accruals, and leave usage. Overtime hours were not recorded on the attendance record. Leave was also not reported on the "Payroll Earnings Forecast" which was certified by the department head.

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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. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FIRE DEPARTMENT
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on May 13, 2015, with Jeffery Smith, Fire Chief; Heather Garay, City Controller; and Kimberly Fabris, Deputy City Controller.

The contents of this report were discussed on May 18, 2015, with Thomas M. McDermott, Jr., Mayor; Heather Garay, City Controller; Dan Spitale, Vice President of the Common Council; Mark McLaughlin, City Chief of Staff; and Kimberly Fabris, Deputy City Controller.

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FIRE PENSION
CITY OF HAMMOND

FIRE PENSION
CITY OF HAMMOND
AUDIT RESULT AND COMMENT

OFFICIAL BOND

The amount of the Firefighters' Pension Secretary Surety Bond was insufficient per the Indiana Code. The bond should have been for \$15,000 but the most recent bond recorded was for \$10,000. The official bond was not filed in the Office of the County Recorder.

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)."

Indiana Code 5-4-1-5.1(b) states in part:

" Every elected or appointed officer, official, deputy, or employee of a political subdivision who is required by section 18 of this chapter to file an official bond for the faithful performance of duty . . . shall file the bond in the office of the county recorder in the county of residence of the officer, official, deputy, or employee. . . ."

FIRE PENSION
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on May 13, 2015, with Russell Dewes, Fire Pension Secretary; Jeffery Smith, Fire Chief; Heather Garay, City Controller; and Kimberly Fabris, Deputy City Controller.

The contents of this report were discussed on May 18, 2015, with Thomas M. McDermott, Jr., Mayor; Heather Garay, City Controller; Dan Spitale, Vice President of the Common Council; Mark McLaughlin, City Chief of Staff; and Kimberly Fabris, Deputy City Controller.

The contents of this report were mailed on May 28, 2015, to Robert Lendi, former City Controller.

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PARK DEPARTMENT
CITY OF HAMMOND

PARK DEPARTMENT
CITY OF HAMMOND
AUDIT RESULT AND COMMENT

PART-TIME EMPLOYEES COMPENSATION

The City employed individuals to work at the Festival of the Lakes, a Park Department sponsored event. These individuals were paid in accordance with rates established in the Salary Ordinance for part-time employees; however, they were not paid through payroll. These individuals were paid via accounts payable vouchers totaling \$9,560.

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

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PARK DEPARTMENT
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on May 13, 2015, with Michael Dye, Vice President of the Park Board; Donna Muta, Park Administrator; Heather Garay, City Controller; and Kimberly Fabris, Deputy City Controller.

The contents of this report were discussed on May 18, 2015, with Thomas M. McDermott, Jr., Mayor; Heather Garay, City Controller; Dan Spitale, Vice President of the Common Council; Mark McLaughlin, City Chief of Staff; and Kimberly Fabris, Deputy City Controller.

The contents of this report were mailed on May 28, 2015, to Robert Lendi, former City Controller.

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SANITARY DISTRICT
CITY OF HAMMOND

SANITARY DISTRICT
CITY OF HAMMOND
FEDERAL FINDINGS

***FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING***

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

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the City to reduce risks to the achievement of financial reporting objectives. The City has not separated incompatible activities related to receipts, disbursements, and cash and investments. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

One person in the Controller's Office is responsible for recording receipts and taking the collections to the depository. There is also one person responsible for generating, recording, and remitting the senior reimbursement disbursements. Journal entries are used to record trust account activity; however, supporting documentation for the entries is not maintained or reviewed for authorization or accuracy. There are also not effective controls over the disbursements recorded in or the reconciliation of the City's Payroll and Withholding fund.

Port Authority: The Finance Director prepares the bank reconciliation. The monthly depository reconciliations are not reviewed for completeness and accuracy.

Hammond Sanitary District:

- The Accounts Receivable Clerk is responsible for preparing the receipts, recording the receipts to the accounting systems, and preparing collections for deposit. The Accounts Receivable Clerk can also adjust bills in the system after they have been posted.
- The Accounts Payable Clerk is responsible for preparing the checks and recording the invoices in the accounting system.
- The Payroll Manager is responsible for the entire payroll process and is able to make payroll rate changes in the computer system.
- The Business Manager prepares the bank reconciliation. The monthly depository reconciliations are not reviewed for completeness and accuracy.

Self-Insurance Disbursements: The City has contracted with a third-party administrator to process medical claims. The Controller's Office records the individual vendor payments in the City's ledger and also mails the checks to the vendors as funds are available in the self-insurance fund. There is no supporting documentation submitted with the checks prepared by the third-party administrator; therefore, the City cannot review the claims for completeness and accuracy. The City has not implemented any other procedures to verify the claims for completeness and accuracy.

SANITARY DISTRICT
CITY OF HAMMOND
FEDERAL FINDINGS
(Continued)

2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the City's audited financial statement and then determining how those identified risks should be managed. The City has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements, including notes to the financial statement. In addition, management of the City has not established a process for final review of the financial statement after compilation.

The City Controller is responsible for preparing the Annual Financial Report (AFR) and electronically submitting it to the Indiana State Board of Accounts. The AFR is the basis for the City's financial statement. The financial information submitted generated the following discrepancies on the City's financial statement:

- The beginning cash and investment balances reported in the financial statement presented for audit were over stated by \$11,467,299 in total compared to the prior audit ending cash and investment balances.
- The financial statement receipts were understated by \$11,574,303 when compared to the records. This was caused by errors when computing the receipt activity from the accrual basis of accounting to the prescribed regulatory basis for the Sanitary District funds and other errors.
- The financial statement disbursements were understated by \$11,717,965 when compared to the records. This was caused by the omission of recording the disbursement activity of a trust account and errors when computing the disbursements from the accrual basis to the prescribed regulatory basis for the Sanitary District funds and other errors.
- The ending cash and investment balances reported in the financial statement presented for audit were understated by \$11,653,424 in total. This was caused by the numerous errors and omissions addressed in the above items.
- The recorded cash and investment balances did not agree with the reconciled bank and trust balances by \$152,358. The employee who completed the bank reconciliation did not verify the actual trust statement balances to the record balances. The difference between the records and the reconciled bank and trust accounts were caused by trust activity that was not recorded accurately in the ledgers.

Audit adjustments were proposed, accepted by the City Controller, and made to the financial statement.

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.

SANITARY DISTRICT
CITY OF HAMMOND
FEDERAL FINDINGS
(Continued)

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)

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

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."

**FINDING 2013-009 - INTERNAL CONTROLS OVER 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 Numbers: WW0516452, WW05164503
Pass-Through Entity: Indiana Finance Authority

Management of the City's Sanitary District has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the Davis-Bacon Act and Suspension and Debarment compliance requirements that have a direct and material effect on the program. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

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.

Davis-Bacon Act

The Sanitary District did not have controls in place to ensure that the Davis-Bacon Act requirements were included in all the required contracts for the projects financed with the grant. In addition, for some projects, a consultant was hired by the state to monitor compliance with the Davis-Bacon Act labor standards. The Sanitary District did not have procedures in place to monitor the work of the consultant to ensure compliance with the Davis-Bacon Act requirements.

SANITARY DISTRICT
CITY OF HAMMOND
FEDERAL FINDINGS
(Continued)

Suspension and Debarment

The Sanitary District was not aware of the Suspension and Debarment requirements; however, the Consulting Engineer was aware of Suspension and Debarment requirements. The Sanitary District has not implemented adequate review or oversight to ensure compliance with these requirements.

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

We recommended that the City establish controls, including segregation of duties, related to the grant agreement and the compliance requirements listed above.

FINDING 2013-010 - DAVIS-BACON ACT

Federal Agency: Environmental Protection Agency
Federal Program: Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
Federal Award Numbers: WW0516452, WW05164503
Pass-Through Entity: Indiana Finance Authority

Upon inspection of the contracts awarded in 2013 and inquiry with the Consulting Engineer and Sanitary District personnel, it was discovered that the one contract that was procured through the bidding process had a prevailing wage clause in the bid documents. However, two projects that were procured through allowable special purchasing methods did not include the prevailing wage clause in the contract. Furthermore, one contractor that performed work in 2013 did not submit weekly certified payroll to the Sanitary District.

40 CFR 31.40(a) states in part:

"Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

40 CFR 31.36(i) states in part:

"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. . . ."

SANITARY DISTRICT
CITY OF HAMMOND
FEDERAL FINDINGS
(Continued)

- (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)."

29 CFR 5.5 states in part:

"(a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in §5.1, the following clauses (or any modifications thereof to meet the particular needs of the agency, *Provided*, That such modifications are first approved by the Department of Labor): . . .

(3) *Payrolls and basic records.*

(i) Payrolls and basic records relating thereto shall be maintained by the contractor during the course of the work and preserved for a period of three years thereafter for all laborers and mechanics working at the site of the work (or under the United States Housing Act of 1937, or under the Housing Act of 1949, in the construction or development of the project. . . .

(ii)(A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency). . . .

(B) Each payroll submitted shall be accompanied by a 'Statement of Compliance,' signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract . . ."

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

We recommended that officials comply with the Davis-Bacon Act requirements that have a direct and material effect on the program.

SANITARY DISTRICT of HAMMOND

5143 COLUMBIA AVENUE
HAMMOND, INDIANA 46327-1794
TELEPHONE (219) 853-6412 - 13 - 14 - 88
FAX (219) 853-6321

Board of Sanitary Commissioners

STANLEY J. DOSTATNI
SAM DIMOPOULOS
MICHAEL HAWKINS, SR.
MATTHEW J. MUTA
MICHAEL DYE



MARTY WIELGOS
District Manager
RACHEL MONTES
Business Manager
JOSEPH P. ALLEGRETTI
Legal Counsel

May 15, 2015

CORRECTIVE ACTION PLAN

FINDING NO. 2013-001

Section II – Financial Statement Findings

Auditee Contact Person: Marty Wielgos, District Manager

Contact Phone Number: 219-853-6413

Expected Completion Date: 12/31/15

Corrective Action:

Internal Controls and Compliance Over Financial Transactions and Reporting

Lack of Segregation of Duties

1. In an effort to segregate the Accounts Receivable clerk's duties, as of 6/1/2015, a different employee will receive the physical checks and prepare the physical deposit. The Accounts Receivable Clerk will receive a copy of the deposited checks and enter the payments accordingly. On 1/1/15, the Business Manager established an Accounts Receivable reconciliation process to ensure that all deposits are recorded. This reconciliation is completed after the period has been closed and the Account Receivable Clerk cannot make any changes to that period.
2. On 1/1/15, the Business Manager established an Accounts Payable reconciliation process to help ensure that only Board approved claims and claims authorized to be paid prior to Board approval as permitted in Resolution 76-2000 and 34-2004 are paid. This reconciliation is completed after the period has been closed and the Account Payable Clerk cannot make any changes to that period.
3. In an effort to segregate the Payroll Clerk's duties, the Business Manager will continue to review the biweekly payroll for inaccuracies as has been done in the past. Beginning on 5/22/15, the District Manager or a person the District Manager designates, will select a series of timesheets to physically review to ensure the accuracy of the payroll register. On 1/1/15, the Business Manager established a Payroll reconciliation process to ensure that all payroll checks issued are recorded. This reconciliation is completed after the period has been closed and the Payroll Clerk cannot make any changes to that period.
4. In an effort to review the Business Manager's bank reconciliation, as of 2/10/15, the Board has been approving the Business Manager's bank reconciliation reports.

Beginning 6/1/15, the District Manager will review the bank statements and the Business Manager's bank reconciliation records for completeness and accuracy.

Marty F. Wilson *5/15/15*

Official's Signature

District Manager

SANITARY DISTRICT of HAMMOND

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MICHAEL DYE



MARTY WIELGOS
District Manager
RACHEL MONTES
Business Manager
JOSEPH P. ALLEGRETTI
Legal Counsel

May 21, 2015

CORRECTIVE ACTION PLAN

FINDING NO. 2013-009

Federal Agency: Environmental Protection Agency

Federal Program: Capitalization Grants or Clean Water State Revolving Funds

CFDA Number: 66.458

Pass-through Agency: Indiana Finance Authority

Auditee Contact Person: Rachel Montes, Business Manager

Contact Phone Number: 219-853-6413

Expected Completion Date: 12/31/15

Corrective Action:

Davis-Bacon Act

1. The District will ensure that the Davis-Bacon Act requirements are included with all the required contracts for projects financed with state revolving funds.
2. Specifically, the District's project manager will give the business administration office a weekly schedule of active projects and the administration office will ensure that certified payrolls are being submitted by the contractors on a consistent basis.

Procurement, Suspension and Debarment:

1. The District will design and operate an internal control system, including segregation of duties, to provide reasonable assurance that material noncompliance with a grant agreement or a type of compliance requirement of a federal program will be prevented, detected and corrected on a timely basis.
2. Specifically the district will implement procedures to ensure that contractors and vendors that HSD employs are not suspended or disbarred from participation in federal programs via the sam.gov website. HSD will keep a copy of the search results.

Official's Signature

SANITARY DISTRICT of HAMMOND

5143 COLUMBIA AVENUE
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Board of Sanitary Commissioners

STANLEY J. DOSTATNI
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MARTY WIELGOS
District Manager
RACHEL MONTES
Business Manager
JOSEPH P. ALLEGRETTI
Legal Counsel

May 21, 2015

CORRECTIVE ACTION PLAN

FINDING NO. 2013-010

Federal Agency: Environmental Protection Agency

Federal Program: Capitalization Grants or Clean Water State Revolving Funds

CFDA Number: 66.458

Pass-through Agency: Indiana Finance Authority

Auditee Contact Person: Rachel Montes, Business Manager

Contact Phone Number: 219-853-6413

Expected Completion Date: 12/31/15

Corrective Action:

Davis-Bacon Act

1. The District will ensure that Davis-Bacon Act requirements are included with all the required contracts for projects procured through the bidding process and through the allowable special purchasing methods.
2. Specifically, the District's project manager will give the business administration office a copy of all accepted contracts to ensure that the prevailing wage clause is included.



Official's Signature

SANITARY DISTRICT
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statement included the following funds with overdrawn cash balances at December 31, 2013:

Fund	Amount Overdrawn
Sanitary District:	
Operations	\$ 1,408,085
Sewer	103,395
Sanitation	418,302
Recycling	995,422
Total Overdrawn Funds	\$ 2,925,204

Funds with overdrawn cash balances as a result of grant expenditures awaiting reimbursement are not included in the list above.

The cash 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)

DELINQUENT WASTEWATER FEES

Delinquent wastewater fees had not been certified to the County Auditor nor recorded with the County Recorder in 2013.

Indiana Code 36-9-25-11(g) states in part:

". . . fees assessed against real property under this section also constitute a lien against the property assessed. The lien attaches at the time of the filing of the notice of lien in the county recorder's office. The lien is superior to all other liens except tax liens, and shall be enforced and foreclosed in the same manner as is provided for liens under IC 36-9-23-33 and IC 36-9-23-34."

Indiana Code 36-9-23-33 states in part:

"(c) Except as provided in subsection (m), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.

SANITARY DISTRICT
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

- (B) A description of the premises, as shown by the records of the county auditor.
- (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.
- (d) The officer shall record a copy of each list or each individual instrument with the county recorder . . .
- (f) . . . Using the lists and instruments prepared under subsection (c) and recorded under subsection (d), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (d), certify to the county auditor a list of the liens that remain unpaid for collection in the next May installment of property taxes. . . ."

CURRENT PAYMENT OF CLAIMS

The District was delinquent in the payment of gas and electric services invoices of \$2,250,432 and \$3,207,429 as of December 31, 2013, and December 31, 2014, respectively.

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; Accounting and Uniform Compliance Guideline Manual for Special Districts, Chapter 10)

SANITARY DISTRICT
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on May 13, 2015, with Rachel Montes, Sanitary District Business Manager; Marty Wielgos, Sanitary District Manager; Stanley J. Dostatni, President of the Sanitary District Board of Commissioners; Joseph Allegretti, Sanitary District Attorney; Mark McLaughlin, City Chief of Staff; Heather Garay, City Controller; and Kimberly Fabris, Deputy City Controller.

The contents of this report were discussed on May 18, 2015, with Thomas M. McDermott, Jr., Mayor; Heather Garay, City Controller; Dan Spitale, Vice President of the Common Council; Mark McLaughlin, City Chief of Staff; Kimberly Fabris, Deputy City Controller; Stanley J. Dostatni, President of the Sanitary District Board of Commissioners; Marty Wielgos, Sanitary District Manager; and Rachel Montes, Sanitary District Business Manager.

The contents of this report were mailed on May 28, 2015, to Robert Lendi, former City Controller.

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PORT AUTHORITY
CITY OF HAMMOND

PORT AUTHORITY
CITY OF HAMMOND
FEDERAL FINDING

**FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE
OVER FINANCIAL TRANSACTIONS AND REPORTING**

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

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the City to reduce risks to the achievement of financial reporting objectives. The City has not separated incompatible activities related to receipts, disbursements, and cash and investments. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

One person in the Controller's Office is responsible for recording receipts and taking the collections to the depository. There is also one person responsible for generating, recording, and remitting the senior reimbursement disbursements. Journal entries are used to record trust account activity; however, supporting documentation for the entries is not maintained or reviewed for authorization or accuracy. There are also not effective controls over the disbursements recorded in or the reconciliation of the City's Payroll and Withholding fund.

Port Authority: The Finance Director prepares the bank reconciliation. The monthly depository reconciliations are not reviewed for completeness and accuracy.

Hammond Sanitary District:

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Self-Insurance Disbursements: The City has contracted with a third-party administrator to process medical claims. The Controller's Office records the individual vendor payments in the City's ledger and also mails the checks to the vendors as funds are available in the self-insurance fund. There is no supporting documentation submitted with the checks prepared by the third-party administrator; therefore, the City cannot review the claims for completeness and accuracy. The City has not implemented any other procedures to verify the claims for completeness and accuracy.

2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the City's audited financial statement and then determining how those identified risks should be managed. The City has not identified risks to the preparation of a reliable financial statement and as a

PORT AUTHORITY
CITY OF HAMMOND
FEDERAL FINDING
(Continued)

result has failed to design effective controls over the preparation of the financial statement to prevent, or detect and correct, material misstatements, including notes to the financial statement. In addition, management of the City has not established a process for final review of the financial statement after compilation.

The City Controller is responsible for preparing the Annual Financial Report (AFR) and electronically submitting it to the Indiana State Board of Accounts. The AFR is the basis for the City's financial statement. The financial information submitted generated the following discrepancies on the City's financial statement:

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- The ending cash and investment balances reported in the financial statement presented for audit were understated by \$11,653,424 in total. This was caused by the numerous errors and omissions addressed in the above items.
- The recorded cash and investment balances did not agree with the reconciled bank and trust balances by \$152,358. The employee who completed the bank reconciliation did not verify the actual trust statement balances to the record balances. The difference between the records and the reconciled bank and trust accounts were caused by trust activity that was not recorded accurately in the ledgers.

Audit adjustments were proposed, accepted by the City Controller, and made to the financial statement.

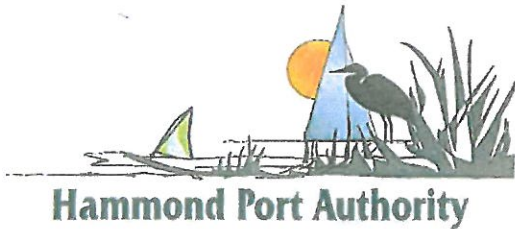
Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other 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)

PORT AUTHORITY
CITY OF HAMMOND
FEDERAL FINDING
(Continued)

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

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under IC 5-14-3.8-7."



Hammond Port Authority
701 Casino Center Drive
Hammond, IN 46320
219-659-7678 • 219-659-7679 (Fax)

Hammond Marina • Lost Marsh Golf Course • Wolf Lake Memorial Park • Forsythe Park • Lakefront

CORRECTIVE ACTION PLAN

FINDING 2013 – 001

Richard Szany, Port Authority Finance Director

1-219-659-7678

Description of Corrective Action Plan:

The Finance Director prepares the bank reconciliation on a monthly basis. The Port Authority Director will review the monthly bank reconciliation with the Finance Director for completeness and accuracy.

Anticipated Completion Date: December 2014

Richard Szany
(Signature)

HPA FINANCE DIRECTOR
(Title)

MAY 15, 2015
(Date)

PORT AUTHORITY
CITY OF HAMMOND
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCES

The financial statement included the following funds with overdrawn cash balances at December 31, 2013:

<u>Fund</u>	<u>Amount Overdrawn</u>
Port Authority:	
Payroll and Withholding	\$ <u> 98</u>

Funds with overdrawn cash balances as a result of grant expenditures awaiting reimbursement are not included in the list above.

The cash 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)

PORT AUTHORITY
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on May 11, 2015, with Milan Kruszynski, Director of the Port Authority; Richard Szany, Port Authority Financial Director; and Heather Garay, City Controller.

The contents of this report were discussed on May 18, 2015, with Thomas M. McDermott, Jr., Mayor; Heather Garay, City Controller; Dan Spitale, Vice President of the Common Council; Mark McLaughlin, City Chief of Staff; and Kimberly Fabris, Deputy City Controller.

The contents of this report were mailed on May 28, 2015, to Robert Lendi, former City Controller.

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CITY CLERK
CITY OF HAMMOND

CITY CLERK
CITY OF HAMMOND
FEDERAL FINDING

***FINDING 2013-003 - CITY CLERK INTERNAL CONTROLS
OVER FINANCIAL TRANSACTIONS AND REPORTING***

We noted deficiencies in the internal control system of the City Clerk related to financial transactions. Control activities should be selected and developed at various levels of the City Clerk's Office to reduce risks to the achievement of financial reporting objectives. The City Clerk has not separated incompatible activities related to receipts, disbursements, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

1. The Senior Staff Accountant is responsible for the recording of all manual receipts, preparing the deposits, and reconciling the monthly depository balances to the records. The monthly depository reconcilements are not reviewed for completeness and accuracy.
2. The Senior Staff Accountant is responsible for all aspects of the disbursement process. The same employee initiates, processes and records disbursements, as well as, performs the monthly depository reconcilements. The Staff Accountant signs the monthly checks, but does not verify those checks to any supporting documentation.

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 Hammond
ROBERT J. GOLEC
City Clerk

CORRECTIVE ACTION PLAN

FINDING 2013-003 CITY CLERK INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action: Robert J. Golec, Hammond City Clerk
Contact Phone Number: 219-853-6346

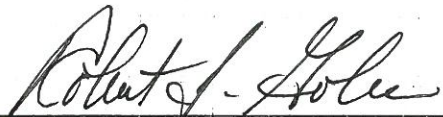
The following internal controls have been in place before this audit began.

- o All bond money is collected by one employee and receipted by another.
- o All cash bond money is deposited separately and is verified against the Hammond Police Department ledger.
- o All daily receipting involves two employees: one to collect the money and one to receipt.
- o All monies/receipts collected are verified and initialed on end of the day balance sheet.
- o All daily receipts are verified and initialed against end of the day balance sheet.
- o All daily transactions are deposited and verified against end of day balance sheet.
- o The Clerk sends monthly totals (beginning cash balance, receipts for the month, disbursement and ending balance) to the City Controller.
- o Any adjustments made are documented and verified by two employees.

Description of Corrective Action Plan:

- Everything from end-of-the day balancing, recording receipts, preparing and recording daily deposits, disbursing checks and reconciling monthly deposits, is completed and verified for completeness and accuracy by two employees.

Anticipated Completion Date: The plan has already been activated.


(Signature)

Hammond City Clerk
May 18, 2015

CITY CLERK
CITY OF HAMMOND
AUDIT RESULT AND COMMENT

CLERK'S TRUST ITEMS OVER FIVE YEARS OLD

As stated in prior Reports B39222 and B42999, the City Clerk's trust register includes money held in excess of five years. The detail trust listing includes entries dating back to the 1980's and of the \$1,623,763 year-end balance, \$634,849 was determined to be held in excess of five years. The funds have not been remitted to the Attorney General's Office as unclaimed property in accordance with the state statute.

Indiana Code 32-34-1-20(c) states in part:

"Property that is held, issued, or owed in the ordinary course of a holder's business is presumed abandoned if the owner or apparent owner has not communicated in writing with the holder concerning the property or has not otherwise given an indication of interest in the property during the following times: . . .

- (6) For property or proceeds held by a court or a court clerk, five (5) years after the property or proceeds become distributable. The property or proceeds must be treated as unclaimed property under Indiana Code 32-34-3. . . ."

Indiana Code 32-34-1-26(a) states in part: "A holder of property that is presumed abandoned and that is subject to custody as unclaimed property under this chapter shall report in writing to the attorney general concerning the property. . . ."

Indiana Code 32-34-1-27(a) states: "Except as provided in subsections (b) and (c), on the date a report is filed under section 26 of this chapter, the holder shall pay or deliver to the attorney general the property that is described in the report as unclaimed."

CITY CLERK
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on May 11, 2015, with Susan Dimopoulos, Chief Deputy City Clerk; Kathryn Knapp, City Clerk Office Manager; and Heather Garay, City Controller.

The contents of this report were discussed on May 18, 2015, with Thomas M. McDermott, Jr., Mayor; Heather Garay, City Controller; Dan Spitale, Vice President of the Common Council; Mark McLaughlin, City Chief of Staff; and Kimberly Fabris, Deputy City Controller.

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