

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF GARY

LAKE COUNTY, INDIANA

January 1, 2014 to December 31, 2014



FILED
10/14/2016

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	M. Celita Green	01-01-14 to 12-31-16
Mayor	Karen Freeman-Wilson	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Niquelle Allen Winfrey	01-01-14 to 12-31-16
President of the Common Council	Kyle W. Allen, Sr. Ronald G. Brewer, Sr.	01-01-14 to 12-31-15 01-01-16 to 12-31-16
Executive Director of Sanitary and Storm Water Management Districts	Daniel F. Vicari	01-01-14 to 12-31-16
President of the Boards of Sanitary and Storm Water Commissioners	Richard J. Comer Nelson Tinsley Richard J. Comer	01-01-14 to 03-03-14 03-04-14 to 04-07-14 04-08-14 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

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

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

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

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

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

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

February 22, 2016

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FINANCE DEPARTMENT
CITY OF GARY

FINANCE DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS

FINDING 2014-001 - INTERNAL CONTROLS OVER FINANCIAL REPORTING

We noted deficiencies in the internal control system of the Clerk and Finance Department related to financial reporting of the Clerk's funds.

The Clerk's Office operates outside the normal business of the Finance Department and is comprised of two divisions: the Criminal Division and the Civil Division. The Clerk's Office maintains their own records and reports their financial information to the Finance Department each year for inclusion in the City's financial statement. The Clerk's Office completes a report detailing the accounts/funds maintained by the Clerk. The report is completed by the Clerk's Accounting Department and is certified by the Clerk before submission to the Finance Department.

The report provided to the Finance Department by the Clerk's Office provided inaccurate information. One of the bank accounts for the Criminal Division was reported individually and also included within a total for the Criminal Division. In addition, the beginning cash balance was overstated by \$200,773, which did not agree to the prior year report's ending cash balance. As a result, the ending cash balance was overstated by \$660,504 for the City Clerk - Criminal Division fund.

Additionally, the 2014 beginning balance amounts reported by the Clerk did not agree to the ending balances reported in 2013. The Finance Department's staff that entered the annual report information into Gateway, an online financial reporting system, used the 2014 beginning balances as provided by the Clerk's Office. The Gateway system automatically pulls forward the prior year's ending balance into the next year. The City did not have documentation that the difference from 2013 ending balance to 2014 beginning balance was reviewed by City personnel prior to entering the 2014 Clerk's information.

The Finance Department and the Clerk's Office did not have effective internal controls to ensure the accuracy and completeness of the financial information reported.

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

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."

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)

FINANCE DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS
(Continued)

FINDING 2014-002 - INTERNAL CONTROLS OVER DISBURSEMENT FINANCIAL TRANSACTIONS

Several deficiencies in the internal control system of the City related to disbursement transactions were identified.

Processing or Auditing APVs

Part of the process used by the Finance Department to audit a claim or accounts payable voucher (APV) included verifying the date of the invoice and invoice number listed on the APV to the invoice attached to the APV.

Multiple instances were noted where the invoices attached to the APVs did not agree to the invoice dates, invoice numbers and amounts listed on the APV for those that were prepared by an IT Department employee. Therefore, the APVs or claims were not being audited in accordance with the controls established by the City Controller.

Indiana Code 5-11-10-1.6(c) states in part:

"The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .

- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and . . ."

Purchasing

Departments requisitioning goods or services were responsible for requesting quotes, submitting quotes to the Finance Department for the issuance of a purchase order, receiving the goods, receiving the vendor invoices, preparing the APV, attaching the invoices to the APV, and submitting the information to the Finance Department for processing. Each department requisitioning goods or services was also responsible for monitoring when a purchase order was complete, and attaching the completed purchase order to the APV.

The City frequently issued "Open" purchase order to vendors with whom the City expected to make several purchases. These included, but were not limited to, utility and phone bills. They were also used for electronic purchases. Once the final purchase was made on an open purchase order, a copy of that purchase order was to be attached to the APV by the department to inform the Finance Department that they can "close" the purchase order.

Because requisitioning departments were responsible for so many related activities, an IT employee was able to prevent certain invoices from being paid, attach invoices previously paid to falsified APVs, and submit incomplete documentation. The use of "Open" purchase orders also allowed for extensive purchasing of items not found in the possession of the City without detection by City officials.

Due to these deficiencies, vendor disbursement transactions in the financial statement were considered high risk and audited as such.

FINANCE DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS
(Continued)

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FINDING 2014-003 - INTERNAL CONTROLS OVER CASH FINANCIAL TRANSACTIONS

We noted a deficiency in the internal control system of the City related to monitoring controls over Cash and Investments financial transactions. An evaluation of the City's system of internal controls has not been conducted. Additionally, the City has no process to identify or communicate corrective actions to improve controls. Effective internal control over financial reporting requires the City to monitor and assess the quality of the system of internal control.

Monthly bank reconciliations were prepared by one individual or an accounting service. The City's control procedures required the reconciliations to be signed or initialed by another responsible official to document the review of the monthly bank reconciliations. However, the control procedure was not properly implemented, and therefore, not effective. The bank reconciliations did not always include documentation of the review.

City: Seven of forty reconciliations tested were not signed or initialed to indicate that the reconciliation had been reviewed.

Gary Sanitary District: Two of sixteen reconciliations for one month reviewed were not signed or initialed to indicate that the reconciliations had been reviewed. The two accounts not documented as reviewed were the primary operating accounts of the District. In addition, the December 2014 monthly bank reconciliations included adjustments that have been on the reconciliations since 2013.

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

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

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



City Of Gary
Department of Finance

KAREN M. FREEMAN-WILSON
Mayor

401 Broadway
Gary, Indiana 46402
(219) 881-1363 / Fax (219) 881-1340
www.gary.in.us

M. CELITA GREEN
Director of Finance

MICHELE ROBY
Chief Accountant

CORRECTIVE ACTION PLAN

FINDING 2014-001- INTERNAL CONTROLS OVER FINANCIAL REPORTING

Contact Person Responsible for Corrective Action: M. Celita Green
Contact Phone Number:- (219) 881-1363

Description of Corrective Action Plan:

To insure accuracy of the financial information submitted from the Clerk's Office to the Finance Department reported in the Gateway System, the Finance Department will provide a copy of the Gateway report to the Clerk's office for review, prior to the Finance Department's submission of the Gateway report.

In addition the Finance Dept will develop a check list for the Financial Statement that will be signed off by the reviewer for each item prepared. Among those items will be the reconciliation of the beginning and ending cash balances.

Anticipated Completion Date: Immediately



City Controller



Date



KAREN M. FREEMAN-WILSON
Mayor

City Of Gary
Department of Finance
401 Broadway
Gary, Indiana 46402
(219) 881-1363 / Fax (219) 881-1340
www.gary.in.us

M. CELITA GREEN
Director of Finance

MICHELE ROBY
Chief Accountant

CORRECTIVE ACTION PLAN

FINDING 2014-002- INTERNAL CONTROLS OVER DISBURSEMENT FINANCIAL TRANSACTIONS

Contact Person Responsible for Corrective Action: M. Celita Green
Contact Phone Number:- (219) 881-1363

Description of Corrective Action Plan:

In November 2015, the Finance Department hired a General Accountant in which part of her responsibilities are to review the claim information that has been entered by Accounts Payable, prior to Board approval and the payment process.

IT has implemented a process that allows segregation of duties between the staff member preparing the claims, and the approval of the claims. All IT claims are approved by the IT Director prior to submission for processing.

Additionally, the Finance Department has requested the Internal Auditor to perform an annual internal audit on claim processing and other processes of the Finance Department. A consultant has also been hired to review internal controls, and make recommendations on changes to strengthen internal controls, and assist in implementation. We anticipate this to be completed by December 2016.

Anticipated Completion Date: In process



City Controller

2/11/14

Date



www.gary.in.us

Chief Accountant

KAREN M. FREEMAN-WILSON
Mayor

City Of Gary
Department of Finance

401 Broadway
Gary, Indiana 46402
(219) 881-1363 / Fax (219) 881-1340
www.gary.in.us

M. CELITA GREEN
Director of Finance

MICHELE ROBY
Chief Accountant

CORRECTIVE ACTION PLAN

FINDING 2014-003- INTERNAL CONTROLS OVER CASH FINANCIAL TRANSACTIONS

Contact Person Responsible for Corrective Action: M. Celita Green
Contact Phone Number:- (219) 881-1363

Description of Corrective Action Plan:

Bank Reconciliations were reviewed, and where applicable, corrections were requested. However, once the preparer made the corrections, the bank reconciliations were not returned to the reviewer for final sign off.

A check list will be developed for each bank that is reconciled. The preparer will sign off on the bank reconciliations when completed. There will be a column where the reviewer can sign off for final approval, if there are no corrections. A copy will be made of the check list and given to the preparer; the reviewer will maintain the original. Once any corrections are made, the reviewer will sign off on both the original and copy. The original will be filed with the bank reconciliations. As an internal control, prior to uploading the bank reconciliations into Gateway, the checklist will be reviewed by management, and initialed and dated at the bottom to be sure that all bank reconciliations have been corrected and signed off.

Anticipated Completion Date: March 2016



City Controller



Date

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

DEPOSITORIES AND INVESTMENTS

Approved Depository Institution

The City's Indiana Department of Environmental Management (IDEM) Landfill trust account with a cash balance of \$1,161,617 at December 31, 2014, was previously managed by JP Morgan Chase (Chase). The account was transferred by necessity to a new investment manager, SDM Investments LLC, who manages the account through TD Ameritrade. Neither the investment manager nor TD Ameritrade were depositories designated by the State Board of Finance as depositories for state deposits under Indiana Code 5-13-9.5.

Indiana Code 5-13-8-1(a) states in part: "A political subdivision may deposit public funds in a financial institution only if the financial institution: (1) is a depository eligible to receive state funds . . ."

Indiana Code 5-13-9-2.5(b) states: "The investments described in subsection (a) shall be made through depositories designated by the state board of finance as depositories for state deposits under IC 5-13-9.5."

Prohibited Investment Types

The IDEM Landfill Trust account managed by the investment manager includes investments prohibited under Indiana Code 5-13-9.

Indiana Code 5-13-9-2 states:

"(a) Each officer designated in section 1 of this chapter may invest or reinvest any funds that are held by the officer and available for investment in any of the following:

- (1) Securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States and issued by any of the following:
 - (A) The United States Treasury.
 - (B) A federal agency.
 - (C) A federal instrumentality.
 - (D) A federal government sponsored enterprise.
- (2) Securities fully guaranteed and issued by any of the following:
 - (A) A federal agency.
 - (B) A federal instrumentality.
 - (C) federal government sponsored enterprise.

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

- (3) Municipal securities issued by an Indiana local governmental entity, a quasi-governmental entity related to the state, or a unit of government, municipal corporation, or special taxing district in Indiana, if the issuer has not defaulted on any of the issuer's obligations within the twenty (20) years preceding the date of the purchase. A security purchased by the treasurer of state under this subdivision must have a stated final maturity of not more than five (5) years after the date of purchase."

Indiana Code 5-13-9-2.5 states in part:

"(a) An officer designated in section 1 of this chapter may invest or reinvest funds that are held by the officer and available for investment in investments commonly known as money market mutual funds that are in the form of securities of or interests in an open-end, no-load, management-type investment company or investment trust registered under the provisions of the federal Investment Company Act of 1940, as amended (15 U.S.C. 80a et seq.).

(b) The investments described in subsection (a) shall be made through depositories designated by the state board of finance as depositories for state deposits under IC 5-13-9.5.

(c) The portfolio of an investment company or investment trust described in subsection (a) must be limited to the following:

- (1) Direct obligations of the United States.
- (2) Obligations issued by any of the following:
 - (A) A federal agency.
 - (B) A federal instrumentality.
 - (C) A federal government sponsored enterprise.
- (3) Repurchase agreements fully collateralized by obligations described in subdivision (1) or (2). . . ."

OVERDRAWN CASH BALANCES

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2014. Cash balances of some of the City's funds were overdrawn due to grant funds operating on a reimbursement basis. Reimbursement grants require the City to expend funds and subsequently request reimbursement. Only those City funds with overdrawn cash balances at December 31, 2014, which were not due to the timing of reimbursements, are listed below:

Fund Name	Amount Overdrawn
General	\$ 6,166,940
Protective Services Grant I	1,033,929
Emergency Shelter	558,859
Health and Human Services	505,079
Leased Properties - Gary Bldg Corp.	338,994

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

All funds noted above have been overdrawn continuously for six or more years.

A similar comment has appeared in several prior Reports.

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)

TEMPORARY TRANSFER OF FUNDS

Various temporary transfers between certain funds were made and not repaid within the time frame permitted by statute. A similar comment has appeared in prior Reports. The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2014:

Loan To	Loan From	Loans Outstanding January 1, 2014	Loans Made	Loans Repaid	Loans Outstanding December 31, 2014
General	Other City Funds (Excluding GSD Funds)	\$14,255,000	\$3,914,623	\$ 6,243,823	\$ 11,925,800
General	GSD Funds	7,657,127	-	2,300,000	5,357,127
Other City Funds (Excluding GSD Funds)	General	-	685,167	685,167	-
Other City Funds (Excluding GSD Funds)	Other City Funds (Excluding GSD Funds)	554,317	1,500,000	1,605,000	449,317
GSD Solid Waste Disposal	GSD WWTP General Operating	<u>10,162,000</u>	<u>-</u>	<u>-</u>	<u>10,162,000</u>
	Totals	<u>\$32,628,444</u>	<u>\$6,099,790</u>	<u>\$10,833,990</u>	<u>\$ 27,894,244</u>

Of the amounts outstanding and not repaid by December 31, 2014, \$27,894,244 has been outstanding since 2013 or prior, as noted below:

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	Various GSD Funds	\$ 5,357,127	2006
General	Lakefront TIF District	4,000,000	2008
General	Lakefront TIF District	1,260,000	2009
General	Consolidated Area TIF District	968,000	2009
General	Media	400,000	2010
General	Remote Encoding Center	500,000	2010
Parks And Recreation	Consolidated Area Exp TIF District	380,000	2010
Redevelopment Operating	Small Farms TIF District	29,000	2010
GSD Solid Waste Disposal	GSD WWTP General Operating	500,000	2010
General	Alcohol and Drug Treatment	145,800	2010

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
GSD Solid Waste Disposal	GSD WWTP General Operating	897,000	2011
General	Cumulative Capital Development	170,000	2011
General	Media	600,000	2011
General	Consolidated Area TIF District	2,000,000	2011
General	Consolidated Area Exp TIF District	300,000	2011
General	Consolidated Area TIF District	32,000	2012
GSD Solid Waste Disposal	GSD WWTP General Operating	5,275,000	2012
Lancaster Dusable TIF District	Lakefront TIF District	40,317	2012
General	Lakefront TIF District	1,550,000	2013
GSD Solid Waste Disposal	GSD WWTP General Operating	<u>3,490,000</u>	2013
Total		<u>\$27,894,244</u>	

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

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met: . . .

- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

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

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

PENALTIES, INTEREST, AND OTHER CHARGES

The City paid penalties, interest, and other charges totaling \$2,884 to a financial institution for not remitting a loan payment timely.

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

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.

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)

ANNUAL FINANCIAL REPORT - SUPPLEMENTARY SCHEDULES

Capital Assets

Capital assets for the Storm Water Management District were maintained but the information was not entered into the 2014 Annual Financial Report. The supplementary capital asset schedule provided for audit was understated by \$18,348,268 due to the lack of Storm Water Management capital assets.

Schedule of Leases and Debt

Amounts reported in the Schedule of Leases and Debt (Schedule) contained material inaccuracies and did not include all debt as follows:

1. The fire truck lease payment was understated by \$192,282.
2. The Schedule did not include a \$427,305 annual capital lease for radio equipment.
3. The Schedule did not include the 2014 Bond Anticipation Note of \$13,214,994.

The Schedule provided for audit was understated \$13,834,581 in total as of December 31, 2014.

Payables

The City did not report any account payables as of December 31, 2014.

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."

CREDIT CARDS AND TRAVEL

The City's credit card policy stated in part: "Credit cards may be utilized by the above listed officials of the City of Gary for payment of Expenses for city business only." The credit card policy also stated in part: "Supporting documents such as paid bills and receipts must be available."

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

In testing payments of credit card purchases for compliance with the City's credit card use policy, we noted seven purchases totaling \$5,644 charged to the various City departments that were not in compliance. In five of these instances, supporting documentation corresponding to charges on the credit card statement was missing. Additionally, some of these exceptions included travel expenditures for which documentation to support the business nature of the expense was not available.

In addition, the City's travel policy permitted the reimbursement of meals purchased by "High ranking city officials." The City's travel policy stated: "Written documentation outlining the nature of the business that precipitated the need for the meal is required." One of the exceptions noted above contained charges for meals at restaurants within the city limits. Documentation establishing the business nature of these meals was not provided or attached to the payment documentation.

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

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

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

(1) there is a fully itemized invoice or bill for the claim . . ."

Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)



KAREN M. FREEMAN-WILSON
Mayor

City Of Gary
Department of Finance
401 Broadway
Gary, Indiana 46402
(219) 881-1363 / Fax (219) 881-1340
www.gary.in.us

M. CELITA GREEN
Director of Finance

MICHELE ROBY
Chief Accountant

Paul Joyce, State Examiner
State Board of Accounts
302 West Washington Street, Rm E418
Indianapolis, Indiana 46204-2765

RE: FINANCE DEPARTMENT OFFICIAL RESPONSES TO AUDIT RESULTS AND COMMENTS

DEPOSITORIES AND INVESTMENT

When JP Morgan Chase informed the City that it would no longer manage Gary's IDEM Landfill Trust account, the City selected SDM Investments, LLC. Before JPMorgan Chase would release the account to SDM, it required Indiana Department of Environmental Management's signature on documents to authorize the transfer. After several emails between IDEM and JPMorgan examining the credentials and discussing the requirements for the transfer of the account to SDM as trustee, IDEM signed the necessary documents to approve and release the investment to SDM as trustee and the funds were transferred. The approval of the transfer of funds by IDEM led us to believe that funds would be investment by SDM in fully guaranteed securities and according to Indiana Code.

We have since contacted Fifth Third Bank to begin our due diligence to transfer the IDEM investment account that will comply with Indiana Code.

OVERDRAWN CASH BALANCES

The City will make every effort to resolve overdrawn cash balances for the Emergency Shelter and Health and Human Services grants that exceed any reimbursements due to these funds. The General Fund, Protective Services, and Leased Property funds require additional revenues to be raised to reduce the deficit balances to zero or above. The City is committed to resolving all deficit balances as funds from additional revenues, and opportunities for reductions in operating expenses are available.

TEMPORARY TRANSFER OF FUNDS

Many of the City's inter-fund transfers were established prior to property tax caps. The reduction of property taxes made it difficult to repay loans in a timely manner and at the amounts required. Since property tax caps were established, the City reduced inter-fund loans that originally extended back to 2005, and continues to repay and reduce outstanding inter-fund loans on an annual basis.

PENALTIES, INTEREST, AND OTHER CHARGES

The City is currently working with Fifth Third bank to receive reimbursement of the late charge that was inadvertently paid in the repayment of loan.

ANNUAL REPORT-SUPPLEMENTAL SCHEDULES

The City has developed a check list to assure that all information, including supplemental schedules are provided in Gateway and accurately submitted.

CREDIT CARD AND TRAVEL

The City has one credit card for administrative expenses, and will assure that no payment will be made for future expenses that either is missing supporting documentation, or insufficient documentation indicating the nature of the business trip or conference.

FINANCE DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on February 22, 2016, with M. Celita Green, Controller; Karen Freeman-Wilson, Mayor; Ronald G. Brewer, Sr., President of the Common Council; LaVetta Sparks-Wade, Common Council Finance Chair; Michele Roby, Deputy Controller; Roxanne Williams, Internal Auditor; and Lisa Jackson, Grant Administrator.

CLERK
CITY OF GARY

CLERK
CITY OF GARY
FEDERAL FINDINGS

FINDING 2014-001 - INTERNAL CONTROLS OVER FINANCIAL REPORTING

We noted deficiencies in the internal control system of the Clerk and Finance Department related to financial reporting of the Clerk's funds.

The Clerk's Office operates outside the normal business of the Finance Department and is comprised of two divisions: the Criminal Division and the Civil Division. The Clerk's Office maintains their own records and reports their financial information to the Finance Department each year for inclusion in the City's financial statement. The Clerk's Office completes a report detailing the accounts/funds maintained by the Clerk. The report is completed by the Clerk's Accounting Department and is certified by the Clerk before submission to the Finance Department.

The report provided to the Finance Department by the Clerk's Office provided inaccurate information. One of the bank accounts for the Criminal Division was reported individually and also included within a total for the Criminal Division. In addition, the beginning cash balance was overstated by \$200,773, which did not agree to the prior year report's ending cash balance. As a result, the ending cash balance was overstated by \$660,504 for the City Clerk - Criminal Division fund.

Additionally, the 2014 beginning balance amounts reported by the Clerk did not agree to the ending balances reported in 2013. The Finance Department's staff that entered the annual report information into Gateway, an online financial reporting system, used the 2014 beginning balances as provided by the Clerk's Office. The Gateway system automatically pulls forward the prior year's ending balance into the next year. The City did not have documentation that the difference from 2013 ending balance to 2014 beginning balance was reviewed by City personnel prior to entering the 2014 Clerk's information.

The Finance Department and the Clerk's Office did not have effective internal controls to ensure the accuracy and completeness of the financial information reported.

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

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."

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)



**Gary City Clerk
Suzette Raggs**

Criminal Division
555 Polk Street
Gary, Indiana 46402
(219) 881-1263
Fax (219) 881-1182

Civil Division
555 Polk Street
Gary, Indiana 46402
(219) 881-1354
Fax (219) 881-1439

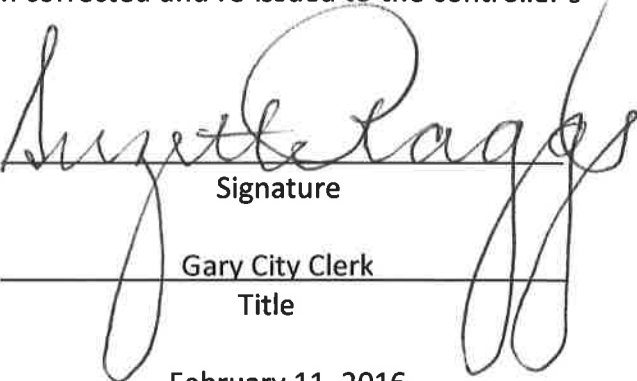
CORRECTION ACTION PLAN

FINDING 2014-001 INTERNAL CONTROLS OVER FINANCIAL REPORTING (RESPONSE)

Contact Person Responsible for Corrective Action: Suzette Raggs, Gary City Clerk
Contact Phone Number (219) 881-4730

Description of Corrective Action Plan: I have reviewed the written responses from our former interim fiscal manager and our contracted certified public accountant (CPA) who provides oversight to our office in bookkeeping and reconciliation procedures. The interim fiscal manager has accepted responsibility for the error in the submittal of the 2013 Supplemental CTAR-1. She no longer has any involvement in financial reporting process and her duties have been reassigned. The fiscal manager who submitted the subsequent 2014 Supplemental CTAR-1 has been replaced with a more experienced individual for which the process has been strengthened. Please be aware that the above employees failed to use the established internal control process of review before submitting the Supplemental CTAR-1 reports. A checklist has been created for a review sign-off prior to being presented to me for signature. Our CPA has also been directed to institute a schedule for all future reviews.

Anticipated Completion Date: Inasmuch as our internal control plan for review was formally in place and working effectively when used, the checklist will be added going forward and the Supplemental CTAR-1s for 2013 and 2014 have been corrected and re-issued to the controller's office.



Signature

Gary City Clerk
Title

February 11, 2016
Date

CLERK
CITY OF GARY
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS

A complete and accurate Cash Bond Register and Trust Register that reflected the Cash Book balances of \$631,153 and \$102,968, respectively, was not available for audit.

The Clerk's office personnel had been researching the manual records to find recording errors from prior years in both the Cash Bond Register and the Trust Register from the Criminal Division. Transactions since April 30, 2005, have been recorded using a computer system. Personnel had been researching the old dockets from 1985 to 2005 to determine an accurate detail of the amount on hand as of April 30, 2005, for both Cash Bonds and Trust items. As personnel had been researching the old dockets, they recorded in the computer system the detail amounts from prior to April 30, 2005, that are still held in Cash Bonds or Trust. While the Clerk's office was researching open balances, there were substantial amounts of open cash bond deposits that have been held since 1990 and still on hand as of December 31, 2014. Indiana Code requires the Court to forfeit bonds when a defendant fails to appear in Court and transfer the amount to the State Common School fund.

Similar comments have appeared in prior Reports.

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 4)

Indiana Code 35-33-8-7 states in part:

"(a) If a defendant:

- (1) was admitted to bail under section 3.2(a)(2) of this chapter; and
- (2) has failed to appear before the court as ordered;

the court shall, except as provided in subsection (b) or section 8(b) of this chapter, declare the bond forfeited not earlier than one hundred twenty (120) days after the defendant's failure to appear and issue a warrant for the defendant's arrest.

(b) In a criminal case, if the court having jurisdiction over the criminal case receives written notice of a pending civil action or unsatisfied judgment against the criminal defendant arising out of the same transaction or occurrence forming the basis of the criminal case, funds deposited with the clerk of the court under section 3.2(a)(2) of this chapter may not be declared forfeited by the court, and the court shall order the deposited funds to be held by the clerk. If there is an entry of final judgment in favor of the plaintiff in the civil action, and if the deposit and the bond are subject to forfeiture, the criminal court shall order payment of all or any part of the deposit to the plaintiff in the action, as is necessary to satisfy the judgment. The court shall then order the remainder of the deposit, if any, and the bond forfeited.

CLERK
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

(c) Any proceedings concerning the bond, or its forfeiture, judgment, or execution of judgment, shall be held in the court that admitted the defendant to bail.

(d) After a bond has been forfeited under subsection (a) or (b), the clerk shall mail notice of forfeiture to the defendant. In addition, unless the court finds that there was a justification for the defendant's failure to appear, the court shall immediately enter judgment, without pleadings and without change of judge or change of venue, against the defendant for the amount of the bail bond, and the clerk shall record the judgment.

(e) If a bond is forfeited and the court has entered a judgment under subsection (d), the clerk shall transfer to the state common school fund:

- (1) any amount remaining on deposit with the court (less the fees retained by the clerk);
and
- (2) any amount collected in satisfaction of the judgment. . . ."

BANK ACCOUNT RECONCILIATIONS - CIVIL DIVISION

The Clerk's office was comprised of two divisions: the Criminal Division and the Civil Division. Bank reconcilements are performed on a monthly basis for both the Criminal and Civil Divisions. The bank reconcilements performed for the Civil Division were not properly completed. The monthly reconcilements have not reconciled the bank to the ledger balance since December 31, 2012. Errors were noted in the amounts used as outstanding checks and other reconciling items in the reconcilements provided for audit. The reconciled bank balance exceeded the Cash Book ledger balance by \$602. The variance was likely due to various posting errors in the Cash Book that have not been timely detected and corrected.

Indiana Code 5-13-6-1(e) states: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."



Criminal Division

555 Polk Street
Gary, Indiana 46402
(219) 881-1263
Fax (219) 881-1182

**Gary City Clerk
Suzette Raggs**

Civil Division

555 Polk Street
Gary, Indiana 46402
(219) 881-1354
Fax (219) 881-1439

March 7, 2016

Mr. Paul Joyce
State Examiner
State Board of Accounts
302 W. Washington Street, Room E-418
Indianapolis, Indiana 46204

Re: Official Response to the 2014 Audit Results & Comments

Dear Mr. Joyce:

This correspondence is in response to the receipt of the 2014 results and comments from the State Board of Accounts regarding its audit for the Criminal & Civil Divisions of the Gary City Clerk's Office for the period of January 1, 2014 to December 31, 2014.

We continue to appreciate the observations and comments shared by the State Board of Accounts' representatives and will incorporate changes where necessary to comply with those guidelines which subsequently further reflect our commitment toward the implementation of a more efficient work environment.

State Board of Accounts representatives met with the Clerk, Chief Deputy Clerk, and Fiscal Manager during a scheduled exit conference to discuss the contents of their report. The following is hereby submitted as our official response to that report.

CONDITION OF RECORDS

(Response)

State Board of Accounts noted that "a complete and accurate Cash Bond Register and Trust Register that reflects the Cash Book balances of \$631,153 and \$102,968, respectively, was not available for audit. . . While the Clerk's Office is researching open balances, there is a substantial amount of open cash bond deposits that have been held since 1990 still on hand as of December 31, 2014. Indiana Code requires the court to forfeit bonds when a defendant fails to appear in court and transfer the amount to the State Common School fund."

When the Gary City Clerk's Office began researching old dockets from 1985 to 2005 to determine an accurate detail of the amount on hand as of April 30, 2005, an excel spreadsheet was created as an internal document by year that lists the activity of each bond issued during those years. The spreadsheet was developed for the sole purpose of tracking information that would become available

as older bonds were disbursed. Even though the activity detail of each bond transaction is readily available, the spreadsheet did not provide for a reconciliation of the older bond balances at each fiscal year-end.

Please be reminded that Cash Bond and Trust Registers had not been reconciled for a vast number of years prior to my administration and various records (some dating back to 1985) cannot be located. A significant number of Cash Bonds and Trust Items have been identified within the past several years and successfully forfeited through the court in accordance with State Board of Account procedures. The process continues to be tedious and prior budget cuts have further impacted our ability to progress as rapidly as desired. However, with the addition of a more experienced fiscal manager and other qualified staff, our office is becoming better positioned to prepare for changes that will provide for greater compliance.

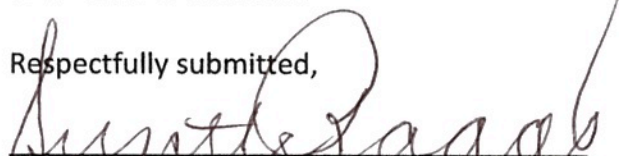
BANK ACCOUNT RECONCILIATIONS – CIVIL DIVISION
(Response)

State Board of Accounts noted that “the bank reconcilements performed for the Civil Division were not properly completed. The monthly reconcilements have not reconciled the bank to the ledger balance since December 31, 2012 {2 years}.”

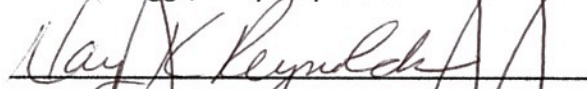
Unfortunately, we were not made aware through either verbal mention or written comment of any posting errors that State Board of Accounts found during the 2013 audit. Since becoming aware during the 2014 audit, our current fiscal manager and certified public accountant have provided a completed reconciliation for the Civil Division for all months in 2013 and 2014. Performance issues will be addressed with the employee who has been consistently linked to these errors during this period.

Our bank reconciliation preparation process has been reinforced by standardizing the internal forms we use for both divisions. I am confident that we will continue to move forward more effectively in this and other areas of the office.

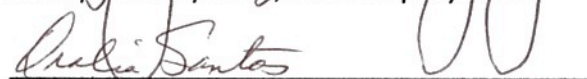
Respectfully submitted,



Suzette Raggs, Gary City Clerk



Nancy Kim Reynolds, Chief Deputy Clerk



Oralia Santos, Fiscal Manager

CLERK
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on February 22, 2016, with Suzette Raggs, Clerk; N. Kim Reynolds, Chief Deputy Clerk; Oralia Santos, Clerk's Fiscal Manager, M. Celita Green, Controller; Karen Freeman-Wilson, Mayor; Ronald G. Brewer, Sr., President of the Common Council; LaVetta Sparks-Wade, Common Council Finance Chair; Michele Roby, Deputy Controller; Roxanne Williams, Internal Auditor; and Lisa Jackson, Grant Administrator.

COMMUNITY DEVELOPMENT DEPARTMENT
CITY OF GARY

COMMUNITY DEVELOPMENT DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS

FINDING 2014-004 - REPORTING

Federal Agency: Department of Housing and Urban Development
Federal Programs: Community Development Block Grants/Entitlement Grants,
Emergency Solutions Grants Program

CFDA Numbers: 14.218, 14.231

Federal Award Numbers: B12MC180005, B13MC180005, E-11-MC-180005, E-12-MC-180005,
E-13-MC-180005, E-14-MC-180005

Management of the City has not established an effective internal control system related to the grant agreement and the Reporting compliance requirements. The failure to establish an effective internal control system places the city at risk of noncompliance with the grant agreement and the compliance requirements.

The City has 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 were submitted.

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

The City was the prime awardee for the Community Development Block Grants/Entitlement Grants Program and Emergency Solutions Grant Program. 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 2014, the City awarded one and two subgrantees of at least \$25,000 from the Community Development Block Grants/Entitlement Grants and Emergency Solutions Grant Program, respectively, but no FFATA reports were filed in 2014 or 2015.

2 CFR, Appendix A to Part 170I, 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>.
 - 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.)

COMMUNITY DEVELOPMENT DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS
(Continued)

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

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 enabled material noncompliance to go undetected. The failure to comply with compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management establish controls to ensure compliance and comply with the Reporting requirements of the programs.

FINDING 2014-005 - MATCHING

Federal Agency: Department of Housing and Urban Development

Federal Program: Emergency Solutions Grants Program

CFDA Number: 14.231

Federal Award Numbers: E-11-MC-180005, E-12-MC-180005, E-13-MC-180005, E-14-MC-180005

Management of the City has not established an effective internal control system, related to the grant agreement and the Matching compliance requirements. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the matching compliance requirements.

According to the agreements between the City and the subrecipients, the subrecipients were responsible for meeting the matching requirement. The City did not have controls or procedures in place to ensure that the matching requirements were met.

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

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

We recommended that the City's management establish controls related to the grant agreement and the Matching compliance requirements.



KAREN FREEMAN-WILSON
Mayor

CITY OF GARY
DEPARTMENT OF COMMERCE
DIVISION OF COMMUNITY DEVELOPMENT

839 Broadway, Suite 302N
Gary, IN 46402
(219) 881-5075~ FAX: (219) 881-5085

ARLENE D. COLVIN
Director

E. NIKOLE RUMPH
Deputy Director

CORRECTIVE ACTION PLAN

FINDING 2014-004 - REPORTING

Contact Person Responsible for Corrective Action: Arlene Colvin
Contact Phone Number: 219-881-5075

Description of Corrective Action Plan:

A standard operating procedure (under our sub-grantee award process) was already established to ensure that sub-grant awards (that obligate at least \$25,000) are properly reported in accordance with the Federal Funding Accountability and Transparency Act. This process is now handled by the Department's Fiscal Division (CDBG Reporting) and the Special Programs Division (ESG Reporting). The failure to report all qualifying sub-grant awards for CDBG and ESG was an oversight of the Department.

Anticipated Completion Date: Completed

Arlene Colvin
(Signature)

DIRECTOR
(Title)

05/11/16
(Date)



KAREN FREEMAN-WILSON
Mayor

CITY OF GARY
DEPARTMENT OF COMMERCE
DIVISION OF COMMUNITY DEVELOPMENT

839 Broadway, Suite 302N
Gary, IN 46402
(219) 881-5075~ FAX: (219) 881-5085

ARLENE D. COLVIN
Director

E. NIKOLE RUMPH
Deputy Director

CORRECTIVE ACTION PLAN

FINDING 2014-005 - MATCHING

Contact Person Responsible for Corrective Action: Arlene Colvin
Contact Phone Number: 219-881-5075

Description of Corrective Action Plan:

All ESG sub-recipients will be required to submit an Emergency Solutions Grant Match Document and Tracking Form to the Compliance Division on a quarterly basis. All documentation will be reviewed for compliance. Subrecipient agreements will be updated to include this language.

Anticipated Completion Date: April 30, 2016

Arlene Colvin
(Signature)
DIRECTOR
(Title)
02/11/16
(Date)

COMMUNITY DEVELOPMENT DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on February 8, 2016, with Arlene Colvin, Director; M. Celita Green, Controller; and Lisa Jackson, Grant Administrator.

The contents of this report were discussed on February 22, 2016, with M. Celita Green, Controller; Karen Freeman-Wilson, Mayor; Ronald G. Brewer, Sr., President of the Common Council; LaVetta Sparks-Wade, Common Council Finance Chair; Michele Roby, Deputy Controller; Roxanne Williams, Internal Auditor; and Lisa Jackson, Grant Administrator.

PLANNING DEPARTMENT
CITY OF GARY

PLANNING DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS

FINDING 2014-006 - CASH MANAGEMENT

Federal Agency: Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Federal Award Numbers: DES#1173663, DES#1173424, DES#1173715
Pass-Through Entity: Indiana Department of Transportation

Management of the City has not established an effective internal control system related to the grant agreement and the Cash Management compliance requirements. The failure to establish an effective internal control system places the City at risk of noncompliance.

The City Controller's Office had written grant management policies and procedures effective December 28, 2012; however, the procedures regarding reconciliation of grants were not properly implemented.

Per the City's Grant Management Policies and Procedures: "Draw-downs must be done in a timely and accurate manner according to term and conditions required by the grantor. Grant recipients shall make draw-down at the time the expenditure is incurred. . ."

The City did not have a system of controls in place to ensure disbursements were made prior to submission of requests for reimbursement or receipt of cash reimbursements. The claims for reimbursements submitted were prepared by one individual without a system of oversight or review. The lack of oversight controls does not allow for the prevention, or detection and correction, of noncompliance with the applicable requirements on a timely basis.

Since this was a reimbursement grant, the funds should have been obligated and paid prior to submission of the requests for reimbursement. However, the City paid vendors for the Highway Planning and Construction grant after receipt of the reimbursements. This occurred, in part, due to a lack of available funds to pay the vendor.

49 CFR 18.21 (d) *Reimbursement* states in part:

"Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met. . ."

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 enabled material noncompliance to go undetected. The failure to comply with compliance requirements could result in the loss of federal funds to the City.

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

PLANNING DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS
(Continued)

FINDING 2014-007 - PROCUREMENT

Federal Agency: Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Federal Award Number: DES#1173715
Pass-Through Entity: Indiana Department of Transportation

Management of the City has not established an effective internal control system related to the grant agreement and the Procurement compliance requirements. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the Procurement compliance requirements.

The City has not designed or implemented adequate policies or procedures to ensure compliance with the Procurement requirements of the program. The City has not ensured that procurement documents were available or that procurement actions were taken when required by Indiana Code.

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

The U.S. Department of Transportation required the procurement procedures used by the City to reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and standards. The following procurement did not conform to State laws and regulations.

The City received grant funding for the purchase of E-85 fuel. The vendor who supplied the fuel was selected based upon a 2011 procurement award. The City did not provide documentation as to how the vendor was selected. The City also did not provide a written contract with the vendor. The City did not comply with requirement of Indiana Code 5-22-17-10 which requires the purchase of petroleum products from the lowest responsive and responsible bidder, and requesting current price quotes whenever a change in price occur.

49 CFR 18.36 (b) states in part:

"Procurement standards. (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. . . (9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. . . "

Indiana Code 5-22-17-10 states:

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

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

PLANNING DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS
(Continued)

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

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 enabled material noncompliance to go undetected. The failure to comply with compliance requirements could result in the loss of federal funds to the City.

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

FINDING 2014-008 - SUSPENSION AND DEBARMENT

Federal Agency: Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Federal Award Numbers: DES#1173663, DES#1173424, DES#1173715
Pass-Through Entity: Indiana Department of Transportation

Management of the City has not properly implemented effective internal control system related to the grant agreement and the Suspension and Debarment compliance requirements. Failure to properly implement an effective internal control system places the City at risk of noncompliance.

The City did not abide by their established procedures regarding Suspension and Debarment. The City did not follow the City's Grant Management Policies and Procedures established in December 2012 to ensure that disbursements from federal funds were not made to vendors who were suspended or disbarred from participation in federal programs.

PLANNING DEPARTMENT
CITY OF GARY
FEDERAL FINDINGS
(Continued)

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

The U.S. Department of Transportation required the City to verify that awarded contracts related to projects funded with federal grants were not awarded to suspended or debarred entities. The City was not in compliance with the Suspension and Debarment requirements of the program. The City failed to check the Excluded Parties List System, collect a certification from the entity, or add a clause or condition to the contract.

Per the City's Grant Management Policies and Procedures: "Agencies shall verify and document the vendor, contractor and subcontractor is not suspended or debarred by accessing the Excluded Parties List System (ELPS): www.epls.gov/epls/search. Agencies shall document this verification. The supporting document must be attached or included with all Quotes, Bids, Awards and Contracts. The search should include the following information and printed as proof of eligibility or ineligibility . . ." (As of November 21, 2012, exclusions can be found through the System of Award Manager Center at www.sam.gov)

49 CFR 18.35 states:

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

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 properly implement effective internal controls enabled material noncompliance to go undetected. The failure to comply with compliance requirements could result in the loss of federal funds to the City.

We recommended that the City's management properly implement the established procedures to ensure compliance and comply with Suspension and Debarment requirements of the programs.



CITY OF GARY

KAREN M. FREEMAN-WILSON
Mayor

DEPARTMENT OF PLANNING & REDEVELOPMENT
GARY REDEVELOPMENT COMMISSION
839 BROADWAY, SUITE S200
GARY, INDIANA 46402
DIRECT: (219) 886-1531
WWW.GARY.IN.US

JOSEPH A. VAN DYK
Director

CORRECTIVE ACTION PLAN

FINDING 2014-006: Cash Management

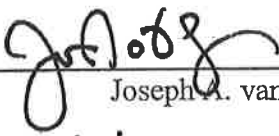
Contact Person Responsible for Corrective Action: Joe van Dyk, Director of Planning & Redevelopment

Contact Phone Number: (219) 886-1531

Description of Corrective Action Plan: Going forward, the following internal controls will be in place regarding grant payments. These will be adopted by the Redevelopment Commission as a section in our Policies and Procedures via a formal resolution of the Commission:

- 1) Drawdown requests for any federal or state funded grant program and subsequent claims will be reviewed independently by both the Deputy Director of Planning and the Deputy Director of Redevelopment, or their respective designees, prior to submittal for payment.
- 2) Invoices associated with federal or state funded grants, will be submitted for payment within fifteen (15) days of receipt, to ensure timely payments in advance of reimbursements.
- 3) For invoices concerning federal or state reimbursement grants, no reimbursement requests can be made until vendor invoices are paid for the corresponding request. Any such request will be reviewed independently by both the Deputy Director of Planning and the Deputy Director of Redevelopment, or their respective designees, prior to submittal.
- 4) The Deputy Director Planning and the Deputy Director of Redevelopment, will each initial the bottom right-hand corner of each claim prior to submittal to document their review of the invoice.

Anticipated Completion Date: March 2, 2016



Joseph A. van Dyk
2/11/16

(Date)



CITY OF GARY

KAREN M. FREEMAN-WILSON
Mayor

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GARY REDEVELOPMENT COMMISSION
839 BROADWAY, SUITE S200
GARY, INDIANA 46402
DIRECT: (219) 886-1531
WWW.GARY.IN.US

JOSEPH A. VAN DYK
Director

CORRECTIVE ACTION PLAN

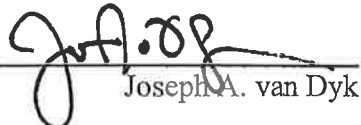
FINDING 2014-007- Procurement

Contact Person Responsible for Corrective Action: Joe van Dyk, Director of Planning & Redevelopment

Contact Phone Number: (219) 886-1531

Description of Corrective Action Plan: This finding results from a lack of documentation concerning a 2011 procurement award. In January 2015, the Gary Redevelopment Commission adopted via resolution Policies and Procedures that prescribe internal controls and compliance for procurement.

Anticipated Completion Date: Complete



Joseph A. van Dyk
2/11/16

(Date)



CITY OF GARY

KAREN M. FREEMAN-WILSON DEPARTMENT OF PLANNING & REDEVELOPMENT
Mayor GARY REDEVELOPMENT COMMISSION
839 BROADWAY, SUITE S200
GARY, INDIANA 46402
DIRECT: (219) 886-1531
WWW.GARY.IN.US

JOSEPH A. VAN DYK
Director

CORRECTIVE ACTION PLAN

FINDING 2014-008: Suspension and Debarment

Contact Person Responsible for Corrective Action: Joe van Dyk, Director of Planning & Redevelopment

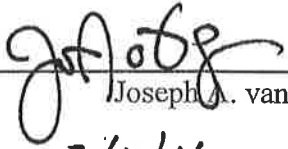
Contact Phone Number: (219) 886-1531

Description of Corrective Action Plan: This finding results from a lack of documentation concerning a 2011 contract. The Gary Redevelopment Commission has adopted procedures to ensure contractors are in good standing via sam.gov. In addition, all contracts used by the Department of Planning & Redevelopment, or the Gary Redevelopment Commission, include a clause entitled "Debarment and Suspension" that reads as follows:

DEBARMENT AND SUSPENSION. The CONTRACTOR certifies by entering this Contract that neither it nor its principals nor any of its subcontractors are presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from entering into this Contract by any federal agency or by any department, agency or political subdivision of the State of Indiana. The term "principal" for purposes of this Contract means an officer, director, owner, partner, key employee or other person with primary management or supervisory responsibilities, or a person who has a critical influence on or substantive control over the operations of the CONTRACTOR.

8.1 The CONTRACTOR certifies that it has verified the state and federal suspension and debarment status for all subcontractors receiving funds under this Contract and shall be solely responsible for any recoupment, penalties and costs that might arise from use of a suspended or debarred subcontractor. The CONTRACTOR shall immediately notify the **Law Department of the City of Gary** if any subcontractor becomes debarred or suspended, and shall, at the CITY's request, take all steps required by the CITY to terminate its contractual relationship with the subcontractor for work performed under this contract.

Anticipated Completion Date: Complete



Joseph A. van Dyk
2/11/16

(Date)

PLANNING DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on February 8, 2016, with La'Kisha Girder, City Planner; Joseph Van Dyk, Director of Redevelopment and Planning; Deardra G. Campbell, Department of Commerce Director; M. Celita Green, Controller; and Lisa Jackson, Grant Administrator.

The contents of this report were discussed on February 22, 2016, with M. Celita Green, Controller; Karen Freeman-Wilson, Mayor; Ronald G. Brewer, Sr., President of the Common Council; LaVetta Sparks-Wade, Common Council Finance Chair; Michele Roby, Deputy Controller; Roxanne Williams, Internal Auditor; and Lisa Jackson, Grant Administrator.

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SANITARY DISTRICT
CITY OF GARY

SANITARY DISTRICT
CITY OF GARY
FEDERAL FINDING

FINDING 2014-003 - INTERNAL CONTROLS OVER CASH FINANCIAL TRANSACTIONS

We noted a deficiency in the internal control system of the City related to monitoring controls over Cash and Investments financial transactions. An evaluation of the City's system of internal controls has not been conducted. Additionally, the City has no process to identify or communicate corrective actions to improve controls. Effective internal control over financial reporting requires the City to monitor and assess the quality of the system of internal control.

Monthly bank reconciliations were prepared by one individual or an accounting service. The City's control procedures required the reconciliations to be signed or initialed by another responsible official to document the review of the monthly bank reconciliations. However, the control procedure was not properly implemented, and therefore, not effective. The bank reconciliations did not always include documentation of the review.

City: Seven of forty reconciliations tested were not signed or initialed to indicate that the reconciliation had been reviewed.

Gary Sanitary District: Two of sixteen reconciliations for one month reviewed were not signed or initialed to indicate that the reconciliations had been reviewed. The two accounts not documented as reviewed were the primary operating accounts of the District. In addition, the December 2014 monthly bank reconciliations included adjustments that have been on the reconciliations since 2013.

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

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

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



**Mayor Karen Freeman-Wilson
Special Administrator**

**Daniel F. Vicari, P.E.
Executive Director**

**Main Office
3600 West 3rd Avenue
Gary, IN 46406
Telephone: 219-944-0595
Fax: 219-977-8318**

**Customer Service
839 Broadway
Gary, IN 46402
Telephone: 219-883-1027
Fax: 219-883-1029**

**Gary Sanitary District
Board of Commissioners
&
Gary Storm Water
Management District
Board of Directors**

**Richard J. Comer
President**

**Charles W. Jackson, Jr.
Vice President**

**Tramel Raggs
Secretary/Treasurer**

**Ola N. Morris
Member**

Jewell Harris, Jr., Attorney

**Website:
www.garysanitary.com**

CORRECTIVE ACTION PLAN

FINDING 2014 - 003 – Internal Controls Over Cash Financial Transactions

Contact Person Responsible for Corrective Action: Ms. Vern E. White

Contact Phone Number: 219.944.0595, Ext. 1813

Description of Corrective Action Plan:

We concur with the finding. I could not confirm whether or not the bank reconciliations had been performed because they were not signed by the preparer. Going forward, we will ensure that the bank statements are performed and that all necessary adjustments are made.

Anticipated Completion Date: 6/30/2016

Ms. Vern E. White

Director of Administration

2/12/2016

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SANITARY DISTRICT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

TEMPORARY TRANSFER OF FUNDS

As stated in several prior Reports, various temporary transfers between certain funds have been made and not repaid within the time frame permitted by statute. The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2014:

Loan To	Loan From	Loans Outstanding January 1, 2014	Loans Made	Loans Repaid	Loans Outstanding December 31, 2014
General (City)	GSD Funds	\$ 7,657,127	\$ -	\$ 2,300,000	\$ 5,357,127
GSD Solid Waste Disposal	GSD WWTP General Operating	<u>10,162,000</u>	-	-	10,162,000
Totals		<u>\$ 17,819,127</u>	<u>\$ -</u>	<u>\$ 2,300,000</u>	<u>\$ 15,519,127</u>

Of the amounts outstanding and not repaid by December 31, 2014, \$15,519,127 has been outstanding since 2013 or prior as noted below:

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	GSD Equipment Replacement	\$ 3,857,127	2006
General	GSD Capital Improvement	1,500,000	2006
GSD Solid Waste Disposal	GSD WWTP General Operating	500,000	2010
GSD Solid Waste Disposal	GSD WWTP General Operating	897,000	2011
GSD Solid Waste Disposal	GSD WWTP General Operating	5,275,000	2012
GSD Solid Waste Disposal	GSD WWTP General Operating	<u>3,490,000</u>	2013
Total		<u>\$15,519,127</u>	

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

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met: . . .

- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

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

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.

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

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

TRANSFER OF FUNDS

In December 2014, the GSD transferred \$575,378 from GSD Grand Calumet Sedimentation fund to the GSD WWTP General Operating fund. The transfer was to reimburse the GSD WWTP General Operating fund for disbursements that should have been paid from the GSD Calumet Sedimentation fund. The GSD did not provide any board approved resolutions for the transfers made.

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FUND SOURCES AND USES

The GSD had various funds to account for its activities. The GSD WWTP General Operating fund (Operating) was to account for the receipts and disbursements associated with the operation, construction, and maintenance of the wastewater treatment plant. The GSD Solid Waste Disposal fund (Solid Waste) was to account for the receipts and disbursements associated with the collection and disposal of trash, garbage and solid waste. The receipts and costs related to these activities were to be recorded in the related fund created to account for the activity.

The City established separate user charges for funding the operation and maintenance of the wastewater treatment plant and the collection and disposal of trash, garbage and solid waste. However, the Operating fund subsidized the Solid Waste fund.

Upon receipt of collections from customers, all user fees were recorded in the Operating fund. This included all user fees collected for the Solid Waste fund.

The user fees for trash collections were not transferred to the Solid Waste fund. Instead, the GSD determined that \$4,800,000 was needed to cover the expenses of the Solid Waste fund. Thus, \$400,000 was transferred monthly from the Operating fund to the Solid Waste fund to cover the monthly expenses. This method of accounting does not accurately reflect the activity of the funds.

For 2014, if the GSD would have recorded the monthly user fees into the Solid Waste fund and used those collections to pay for the related costs, disbursements would have exceeded receipts by \$1,419,218. In addition, because the trash collections user fees were recorded in the Operating fund and transfers to the Solid Waste fund exceeded those user fees, the Operating fund subsidized \$1,611,102 of the 2014 solid waste operations as follows:

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

Explanation	Amount
Trash fees collected and posted to GSD WWTP General Operating	\$ 3,188,898
Less: GSD Solid Waste Disposal fund disbursements	<u>4,608,116</u>
Insufficient collections	<u>\$ (1,419,218)</u>
GSD WWTP General Operating transfers to GSD Solid Waste Disposal fund	\$ 4,800,000
Less: Trash fees collected and posted to GSD WWTP General Operating	<u>3,188,898</u>
GSD WWTP General Operating subsidy of GDS Solid Waste Disposal	<u>\$ 1,611,102</u>

Indiana Code 36-9-25-11 states in part:

"(a) In connection with its duties, the board may fix fees for the treatment and disposal of sewage and other waste discharged into the sewerage system, collect the fees, and establish and enforce rules governing the furnishing of and payment for sewage treatment and disposal service. The fees must be just and equitable and shall be paid by any user of the sewage works . . .

(b) The board may change fees from time to time. The fees, together with the taxes levied under this chapter, must at all times be sufficient to produce revenues sufficient to pay operation, maintenance, and administrative expenses, to pay the principal and interest on bonds as they become due and payable, and to provide money for the revolving fund authorized by this chapter."

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

Fund means "cash" or a group of accounts set aside for the purpose of accounting for moneys or other resources of general functions or specific activities such as utilities, construction projects or other activities of a city or town in accordance with a system of accounts prescribed by the State Board of Accounts or as required by statute. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 1)

GAAFR defines a fund as: "A fiscal and accounting entity with a self-balancing set of accounts in which cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations." A further discussion of the types of funds GAAFR requires will be found in Chapter 2, Section B, Page 7-1. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 1)

TRASH PENALTIES

The Common Council approved Ordinance 8659 on January 4, 2013, establishing fees for solid waste and recycling services. The ordinance stated: "Failure of a Resident or owner of a Residential Unit to make timely payment shall subject the same to a penalty or late charge of ten percent (10%)." The GSD did not charge trash penalties for delinquent payment in accordance with the ordinance.

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

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)

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties have not been certified to the County Auditor since 2009. The delinquent fees have been recorded with the County Recorder more frequently, but not certified to the County Auditor.

A similar comment appeared in prior Report B44236.

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.

(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 unpaid liens for collection with the next May installment of property taxes. . . ."

ANNUAL REPORT - SUPPLEMENTARY SCHEDULES

Capital Assets

Capital assets for the Storm Water Management District were maintained, but the information was not entered into the 2014 Annual Financial Report. The supplementary capital asset schedule provided for audit was understated by \$18,348,268 due to the lack of Storm Water Management capital assets.

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

Payables

The City, including the Sanitary District, did not report any account payables as of December 31, 2014.

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."

SUBSEQUENT EVENT - GOVERNMENT EMPLOYEE HOLDING OFFICE

Indiana Code 3-5-9-7 permits government employees who also held elective office as of January 1, 2013, to continue holding elected office until the end of term of office. The Gary Common Council has an elected member, Mary M. Brown, who also works for the GSD as the Director of Customer Service.

The GSD was created by ordinance and is considered to be a department of the City. Indiana Code 36-9-25-3 states in part: "(a) A department of public sanitation is established as an executive department of the municipality. . . ."

Council member Mary M. Brown's term of office affected by Indiana Code 3-5-9-7 expired as of December 31, 2015. Council member Brown was re-elected in November 2015 and began a new term of office on January 1, 2016. Council member Brown, who was employed with the GSD during the previous term of office, has continued employment with the GSD in 2016 and has not complied with the requirements of Indiana Code 3-5-9-5. As a result, Mary M. Brown is deemed to have resigned her employment with the GSD on January 1, 2016. Any compensation paid to Mary M. Brown subsequent to October 14, 2016, related to employment with the GSD may be the personal responsibility of Council member Mary M. Brown.

Indiana Code 3-5-9-1 states:

"As used in this chapter, 'elected office' refers only to the following:

- (1) The executive or a member of the executive body of a unit.
- (2) A member of the legislative body or fiscal body of a unit. "

Indiana Code 3-5-9-2 states: "As used in this chapter, 'government employee' refers to an employee of a unit. The term does not include an individual who holds only an elected office."

Indiana Code 3-5-9-5 states: "Except as provided in section 7 of this chapter, an individual is considered to have resigned as a government employee when the individual assumes an elected office of the unit that employs the individual."

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

Indiana Code 3-5-9-7 states in part:

"(a) Notwithstanding sections 4 and 5 of this chapter . . . (2) a government employee who assumes or holds an elected office on January 1, 2013, may continue to hold the elected office and be employed as a government employee; until the term of the elected office that the . . . government employee is serving on January 1, 2013, expires. . . .

(c) After the expiration of the term of the elected office that the government employee referred to in subsection (a) is serving on January 1, 2013, the government employee is subject to section 5 of this chapter with respect to assuming or holding an elected office and being employed by the unit that employs the government employee."

OFFICIALS' RESPONSE

This document is a response to the findings of the SBOA regarding the comments to Gary Common Council woman, Mary M. Brown ("Brown") concerning government employees holding office. The SBOA has determined that Brown cannot serve on the council and remain employed with the Gary Sanitary District and cite IC 36-9-25-3 as authority for this determination. The SBOA and its reliance on the above stated statute is in error.

Brown was duly elected to the Gary City Council in 1999 and took office in January of 2000. Brown has since served continuously without any break in service. Brown was recently reelected in November of 2015 to a new 4-year term. Brown has been an employee with the Gary Sanitary District since 1995 with no break in employment. The Gary Sanitary District is a separate sovereign entity from the City of Gary. The Gary Sanitary District has a Board totally independent of the municipality and functions under a Federal Consent Degree and Special Administrator. Brown's position as a councilwoman grants her no authority over the overall budget or operations of the Gary Sanitary District, for all such matters are reserved for the Board and Special Administrator.

The employee of a political subdivision, including a sanitary district, may be a candidate for the city council and serve in that office if elected without having to resign from the political subdivision under IC 36-1-8-10.5. Section 10.5. (b) provides that "an employee of a political subdivision may: (1) be a candidate for any elected office and serve in that office if elected; or (2) be appointed to any office and serve in that office if appointed; without having to resign as an employee of the political subdivision."

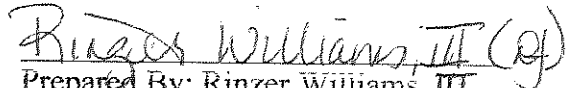
The SBOA reliance on IC 36-9-25-3 is in error as said code does not apply to the City of Gary. IC 36-9-25-1 states, "Application of chapter Sec. 1. (a) This chapter applies to the following: (1) A second class city located in a county having a population of more than one hundred eleven thousand (111,000) but less than one hundred fifteen thousand (115,000).

(2) Each municipality in a county having a population of more than four hundred thousand (400,000) but less than seven hundred thousand (700,000) in which the legislative body has adopted this chapter by ordinance.

(b) This chapter also applies to each second class city not in such a county in which the legislative body has adopted this chapter by ordinance."

IC 36-9-25-1 does not apply to the City of Gary nor the Gary Sanitary District because according to the US Bureau of the Census, the population of Gary was 80,294 at the 2010 census. As of July 1, 2014, the City of Gary population declined by 3% or 77,909 per US census data. There is no reason to believe the population of the city will approach 111,000 during Council member Mary M. Brown's term of office. In addition sections (2) and section (b) of the statute do not apply as there is no indication that the legislative body ever adopted this chapter of the ordinance.

Gary City Council woman Mary M. Brown's November 2015 re-election and employment at the Gary Sanitary District complies with IC 36-1-8-10.5 and is unaffected by IC 36-9-25-1.


Prepared By: Rinzer Williams, III
(Council Legal Advisor)
On Behalf of Mary M. Brown
3rd District Council Woman



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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDIANA STATE BOARD OF ACCOUNTS COMMENT ON THE OFFICIAL RESPONSE

To provide clarity and perspective, we are commenting on the Official Response to our Audit Result and Comment (ARC) titled "Subsequent Event – Government Employee Holding Office". An Official Response to this ARC was submitted by Rinzer Williams, III, Gary Common Council Legal Advisor, on behalf of Mary M. Brown, Gary Common Council member.

The Official Response states, in part:

"The SBOA reliance on IC 36-9-25-3 is in error as said code does not apply to the City of Gary. IC 36-9-25-1 states, "Application of chapter Sec. 1. (a) This chapter applies to the following: (1) A second class city located in a county having a population of more than one hundred eleven thousand (111,000) but less than one hundred fifteen thousand (115,000).

(2) Each municipality in a county having a population of more than four hundred thousand (400,000) but less than seven hundred thousand (700,000) in which the legislative body has adopted this chapter by ordinance.

(b) This chapter also applies to each second class city not in such a county in which the legislative body has adopted this chapter by ordinance."

IC 36-9-25-1 does not apply to the City of Gary nor the Gary Sanitary District because according to the US Bureau of the Census, the population of Gary was 80,294 at the 2010 census. . . There is no reason to believe the population of the city will approach 111,000 during Council member Mary M. Brown's term of office."

State Board of Accounts Comment:

Indiana Code 36-9-25-1(a)(2) states, in part, this chapter applies to:

"Each municipality in a county having a population of more than four hundred thousand (400,000) but less than seven hundred thousand (700,000) in which the legislative body has adopted this chapter by ordinance."

Per the U.S. Bureau of the Census, the 2010 census indicated the population of Lake County, Indiana, was 496,005, which is more than 400,000 but less than 700,000. Therefore, Indiana Code 36-9-25 would apply to each municipality in Lake County, including the City of Gary, which has adopted Indiana Code 36-9-25 by ordinance.

The Official Response states, in part:

"In addition sections (2) and section (b) of the statute do not apply as there is no indication that the legislative body ever adopted this chapter of the ordinance."

State Board of Accounts Comment:

The legislative body of the City of Gary adopted Ordinance No. 8659 on January 2, 2013, which states in part:

“NOW, THEREFORE, BE IT ORDAINED BY THE COMMON COUNCIL OF THE CITY OF GARY, INDIANA as follows:

1. The Common Council hereby ratifies and confirms that the District is and shall be governed by Indiana Code § 36-9-25-1, et seq. and hereby adopts (or readopts) said statute, in its entirety.”

The Official Response states, in part:

“The employee of a political subdivision, including a sanitary district, may be a candidate for the city council and serve in that office if elected without having to resign from the political subdivision under IC 36-1-8-10.5. Section 10.5(b) provides that “an employee of a political subdivision may: (1) be a candidate for any elected office and serve in that office if elected; or (2) be appointed to any office and serve in that office if appointed; without having to resign as an employee of the political subdivision.”

State Board of Accounts Comment:

The Official Response omits the language in Indiana Code 36-1-8-10.5(b) which provides that the subsection is “subject to IC 3-5-9.”

Therefore, the State Board of Accounts’ position remains as so stated in the Audit Results and Comments section of this report. Any compensation paid to Mary M. Brown subsequent to October 14, 2016, related to employment with the Gary Sanitary District may be the personal responsibility of Council member Mary M. Brown pursuant to Indiana Code 3-5-9.

SANITARY DISTRICT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on February 22, 2016, with Richard J. Comer, President of the Boards of Sanitary and Storm Water Commissioners; Vern E. White, Director of Administration; M. Celita Green, Controller; Karen Freeman-Wilson, Mayor; Ronald G. Brewer, Sr., President of the Common Council; LaVetta Sparks-Wade, Common Council Finance Chair; Michele Roby, Deputy Controller; Roxanne Williams, Internal Auditor; and Lisa Jackson, Grant Administrator.

The contents of this report were also discussed on August 25, 2016, with Mary M. Brown, Common Council member and Director of Customer Service - Gary Sanitary District, and Rinzer Williams, III, Legal Counsel.

MAYOR
CITY OF GARY

MAYOR
CITY OF GARY
AUDIT RESULT AND COMMENT

CREDIT CARDS AND TRAVEL

The City's credit card policy states in part: "Credit cards may be utilized by the above listed officials of the City of Gary for payment of Expenses for city business only." The credit card policy also states in part: "Supporting documents such as paid bills and receipts must be available."

In testing payments of credit card purchases for compliance with the City's credit card use policy, we noted five purchases totaling \$4,698 charged to the Mayor's department that were not in compliance. In four of these instances, supporting documentation corresponding to charges on the credit card statement was missing. Additionally, some of these exceptions included travel expenditures for which documentation to support the business nature of the expense was not available.

In addition, the City's travel policy permits the reimbursement of meals purchased by "High ranking city officials." The City's travel policy states: "Written documentation outlining the nature of the business that precipitated the need for the meal is required." Of the exceptions noted above, one contained charges for meals at restaurants within the city limits. Documentation establishing the business nature of these meals was not provided or attached to the payment documentation.

Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee. (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)

MAYOR
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on February 22, 2016, with Karen Freeman-Wilson, Mayor; Dayna Bennett, Chief of Staff; M. Celita Green, Controller; Ronald G. Brewer, Sr., President of the Common Council; LaVetta Sparks-Wade, Common Council Finance Chair; Michele Roby, Deputy Controller; Roxanne Williams, Internal Auditor; and Lisa Jackson, Grant Administrator.

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COMMON COUNCIL
CITY OF GARY

COMMON COUNCIL
CITY OF GARY
AUDIT RESULTS AND COMMENTS

TEMPORARY TRANSFER OF FUNDS

Various temporary transfers between certain funds were made and not repaid within the time frame permitted by statute. A similar comment has appeared in prior Reports. The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2014:

Loan To	Loan From	Loans Outstanding January 1, 2014	Loans Made	Loans Repaid	Loans Outstanding December 31, 2014
General	Other City Funds (Excluding GSD Funds)	\$14,255,000	\$3,914,623	\$ 6,243,823	\$ 11,925,800
General	GSD Funds	7,657,127	-	2,300,000	5,357,127
Other City Funds (Excluding GSD Funds)	General	-	685,167	685,167	-
Other City Funds (Excluding GSD Funds)	Other City Funds (Excluding GSD Funds)	554,317	1,500,000	1,605,000	449,317
GSD Solid Waste Disposal	GSD WWTP General Operating	<u>10,162,000</u>	<u>-</u>	<u>-</u>	<u>10,162,000</u>
	Totals	<u>\$32,628,444</u>	<u>\$6,099,790</u>	<u>\$10,833,990</u>	<u>\$ 27,894,244</u>

Of the amounts outstanding and not repaid by December 31, 2014, \$27,894,244 has been outstanding since 2013 or prior, as noted below:

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	Various GSD Funds	\$ 5,357,127	2006
General	Lakefront TIF District	4,000,000	2008
General	Lakefront TIF District	1,260,000	2009
General	Consolidated Area TIF District	968,000	2009
General	Media	400,000	2010
General	Remote Encoding Center	500,000	2010
Parks And Recreation	Consolidated Area Exp TIF District	380,000	2010
Redevelopment Operating	Small Farms TIF District	29,000	2010
GSD Solid Waste Disposal	GSD WWTP General Operating	500,000	2010
General	Alcohol and Drug Treatment	145,800	2010

COMMON COUNCIL
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
GSD Solid Waste Disposal	GSD WWTP General Operating	897,000	2011
General	Cumulative Capital Development	170,000	2011
General	Media	600,000	2011
General	Consolidated Area TIF District	2,000,000	2011
General	Consolidated Area Exp TIF District	300,000	2011
General	Consolidated Area TIF District	32,000	2012
GSD Solid Waste Disposal	GSD WWTP General Operating	5,275,000	2012
Lancaster Dusable TIF District	Lakefront TIF District	40,317	2012
General	Lakefront TIF District	1,550,000	2013
GSD Solid Waste Disposal	GSD WWTP General Operating	<u>3,490,000</u>	2013
Total		<u>\$27,894,244</u>	

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

"(a) The fiscal body of a political subdivision may, by ordinance or resolution, permit the transfer of a prescribed amount, for a prescribed period, to a fund in need of money for cash flow purposes from another fund of the political subdivision if all these conditions are met: . . .

- (3) Except as provided in subsection (b), the prescribed period must end during the budget year of the year in which the transfer occurs.
- (4) The amount transferred must be returned to the other fund at the end of the prescribed period. . . .

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

- (1) Passes an ordinance or a resolution that contains the following:
 - (A) A statement that the fiscal body has determined that an emergency exists.
 - (B) A brief description of the grounds for the emergency.
 - (C) The date the loan will be repaid that is not more than six (6) months beyond the budget year in which the transfer occurs.
- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

ELECTED OFFICIAL SALARY

The Common Council approved Ordinance 2013-116 on January 13, 2014, which included an amendment to increase the Mayor's 2014 salary. This resulted in a change of salary in the year for which it was set for an elected official.

COMMON COUNCIL
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 36-4-7-2(c) states in part: "The compensation of an elected city officer may not be changed in the year for which it is fixed. . . ."

EMERGENCY MEDICAL SERVICE MUTUAL AID CONTRACT

As stated in prior Report B44236, on November 16, 2012, the Fire Chief entered into a written mutual aid agreement with a private corporation for emergency medical services (EMS) on an as needed basis. The agreement included wording that it may be a necessity for the City to request dedicated resources from the private corporation to supplement an anticipated or unanticipated shortage of resources for extended periods of time at no charge to the City. As part of the agreement, the private corporation is allowed to also answer private ambulance calls from the City's fire station. The agreement was not entered into by ordinance or resolution approved by the Common Council or the attorney general as required by Indiana Code 10-14-6.5-8 and 36-1-7.

Indiana Code 10-14-6.5-4(c) states:

"This chapter may not be construed to prohibit a private entity or its employees from participating in the provision of mutual aid if:

- (1) the participating political subdivision approves the participation of the private entity;
and
- (2) a contract between the political subdivision and the participating private entity permits the participation."

Indiana Code 10-14-6.5-8 states: "A mutual aid agreement under this chapter must be approved in the same manner as interlocal cooperation agreements are approved under IC 36-1-7."

Indiana Code 36-1-7-2(a) states in part: ". . . Entities that want to do this must, by ordinance or resolution, enter into a written agreement under section 3 or 9 of this chapter."

Indiana Code 36-1-7-4(b) states:

"If subsection (a) does not apply, an agreement under section 3 of this chapter must be submitted to the attorney general for the attorney general's approval. The attorney general shall approve the agreement unless the attorney general finds that it does not comply with the statutes, in which case the attorney general shall detail in writing for the parties the specific respects in which the agreement does not comply. If the attorney general fails to disapprove the agreement within sixty (60) days after it is submitted to the attorney general, it is considered approved."

SUBSEQUENT EVENT - GOVERNMENT EMPLOYEE HOLDING OFFICE

Indiana Code 3-5-9-7 permits government employees who also held elective office as of January 1, 2013, to continue holding elected office until the end of term of office. The Gary Common Council has an elected member, Mary M. Brown, who also works for the GSD as the Director of Customer Service.

COMMON COUNCIL
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

The GSD was created by ordinance and is considered to be a department of the City. Indiana Code 36-9-25-3 states in part: "(a) A department of public sanitation is established as an executive department of the municipality. . . ."

Council member Mary M. Brown's term of office affected by Indiana Code 3-5-9-7 expired as of December 31, 2015. Council member Brown was re-elected in November 2015 and began a new term of office on January 1, 2016. Council member Brown, who was employed with the GSD during the previous term of office, has continued employment with the GSD in 2016 and has not complied with the requirements of Indiana Code 3-5-9-5. As a result, Mary M. Brown is deemed to have resigned her employment with the GSD on January 1, 2016. Any compensation paid to Mary M. Brown subsequent to October 14, 2016, related to employment with the GSD may be the personal responsibility of Council member Mary M. Brown.

Indiana Code 3-5-9-1 states:

"As used in this chapter, 'elected office' refers only to the following:

- (1) The executive or a member of the executive body of a unit.
- (2) A member of the legislative body or fiscal body of a unit."

Indiana Code 3-5-9-2 states: "As used in this chapter, 'government employee' refers to an employee of a unit. The term does not include an individual who holds only an elected office."

Indiana Code 3-5-9-5 states: "Except as provided in section 7 of this chapter, an individual is considered to have resigned as a government employee when the individual assumes an elected office of the unit that employs the individual."

Indiana Code 3-5-9-7 states in part:

"(a) Notwithstanding sections 4 and 5 of this chapter . . . (2) a government employee who assumes or holds an elected office on January 1, 2013, may continue to hold the elected office and be employed as a government employee; until the term of the elected office that the . . . government employee is serving on January 1, 2013, expires. . . .

(C) After the expiration of the term of the elected office that the government employee referred to in subsection (a) is serving on January 1, 2013, the government employee is subject to section 5 of this chapter with respect to assuming or holding an elected office and being employed by the unit that employs the government employee."

OFFICIALS' RESPONSE

This document is a response to the findings of the SBOA regarding the comments to Gary Common Council woman, Mary M. Brown ("Brown") concerning government employees holding office. The SBOA has determined that Brown cannot serve on the council and remain employed with the Gary Sanitary District and cite IC 36-9-25-3 as authority for this determination. The SBOA and its reliance on the above stated statute is in error.

Brown was duly elected to the Gary City Council in 1999 and took office in January of 2000. Brown has since served continuously without any break in service. Brown was recently reelected in November of 2015 to a new 4-year term. Brown has been an employee with the Gary Sanitary District since 1995 with no break in employment. The Gary Sanitary District is a separate sovereign entity from the City of Gary. The Gary Sanitary District has a Board totally independent of the municipality and functions under a Federal Consent Degree and Special Administrator. Brown's position as a councilwoman grants her no authority over the overall budget or operations of the Gary Sanitary District, for all such matters are reserved for the Board and Special Administrator.

The employee of a political subdivision, including a sanitary district, may be a candidate for the city council and serve in that office if elected without having to resign from the political subdivision under IC 36-1-8-10.5. Section 10.5. (b) provides that "an employee of a political subdivision may: (1) be a candidate for any elected office and serve in that office if elected; or (2) be appointed to any office and serve in that office if appointed; without having to resign as an employee of the political subdivision."

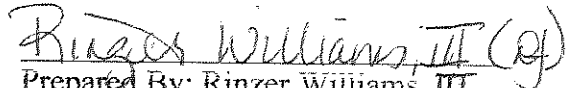
The SBOA reliance on IC 36-9-25-3 is in error as said code does not apply to the City of Gary. IC 36-9-25-1 states, "Application of chapter Sec. 1. (a) This chapter applies to the following: (1) A second class city located in a county having a population of more than one hundred eleven thousand (111,000) but less than one hundred fifteen thousand (115,000).

(2) Each municipality in a county having a population of more than four hundred thousand (400,000) but less than seven hundred thousand (700,000) in which the legislative body has adopted this chapter by ordinance.

(b) This chapter also applies to each second class city not in such a county in which the legislative body has adopted this chapter by ordinance."

IC 36-9-25-1 does not apply to the City of Gary nor the Gary Sanitary District because according to the US Bureau of the Census, the population of Gary was 80,294 at the 2010 census. As of July 1, 2014, the City of Gary population declined by 3% or 77,909 per US census data. There is no reason to believe the population of the city will approach 111,000 during Council member Mary M. Brown's term of office. In addition sections (2) and section (b) of the statute do not apply as there is no indication that the legislative body ever adopted this chapter of the ordinance.

Gary City Council woman Mary M. Brown's November 2015 re-election and employment at the Gary Sanitary District complies with IC 36-1-8-10.5 and is unaffected by IC 36-9-25-1.


Prepared By: Rinzer Williams, III
(Council Legal Advisor)
On Behalf of Mary M. Brown
3rd District Council Woman



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AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDIANA STATE BOARD OF ACCOUNTS COMMENT ON THE OFFICIAL RESPONSE

To provide clarity and perspective, we are commenting on the Official Response to our Audit Result and Comment (ARC) titled "Subsequent Event – Government Employee Holding Office". An Official Response to this ARC was submitted by Rinzer Williams, III, Gary Common Council Legal Advisor, on behalf of Mary M. Brown, Gary Common Council member.

The Official Response states, in part:

"The SBOA reliance on IC 36-9-25-3 is in error as said code does not apply to the City of Gary. IC 36-9-25-1 states, "Application of chapter Sec. 1. (a) This chapter applies to the following: (1) A second class city located in a county having a population of more than one hundred eleven thousand (111,000) but less than one hundred fifteen thousand (115,000).

(2) Each municipality in a county having a population of more than four hundred thousand (400,000) but less than seven hundred thousand (700,000) in which the legislative body has adopted this chapter by ordinance.

(b) This chapter also applies to each second class city not in such a county in which the legislative body has adopted this chapter by ordinance."

IC 36-9-25-1 does not apply to the City of Gary nor the Gary Sanitary District because according to the US Bureau of the Census, the population of Gary was 80,294 at the 2010 census. . . There is no reason to believe the population of the city will approach 111,000 during Council member Mary M. Brown's term of office."

State Board of Accounts Comment:

Indiana Code 36-9-25-1(a)(2) states, in part, this chapter applies to:

"Each municipality in a county having a population of more than four hundred thousand (400,000) but less than seven hundred thousand (700,000) in which the legislative body has adopted this chapter by ordinance."

Per the U.S. Bureau of the Census, the 2010 census indicated the population of Lake County, Indiana, was 496,005, which is more than 400,000 but less than 700,000. Therefore, Indiana Code 36-9-25 would apply to each municipality in Lake County, including the City of Gary, which has adopted Indiana Code 36-9-25 by ordinance.

The Official Response states, in part:

"In addition sections (2) and section (b) of the statute do not apply as there is no indication that the legislative body ever adopted this chapter of the ordinance."

State Board of Accounts Comment:

The legislative body of the City of Gary adopted Ordinance No. 8659 on January 2, 2013, which states in part:

“NOW, THEREFORE, BE IT ORDAINED BY THE COMMON COUNCIL OF THE CITY OF GARY, INDIANA as follows:

1. The Common Council hereby ratifies and confirms that the District is and shall be governed by Indiana Code § 36-9-25-1, et seq. and hereby adopts (or readopts) said statute, in its entirety.”

The Official Response states, in part:

“The employee of a political subdivision, including a sanitary district, may be a candidate for the city council and serve in that office if elected without having to resign from the political subdivision under IC 36-1-8-10.5. Section 10.5(b) provides that “an employee of a political subdivision may: (1) be a candidate for any elected office and serve in that office if elected; or (2) be appointed to any office and serve in that office if appointed; without having to resign as an employee of the political subdivision.”

State Board of Accounts Comment:

The Official Response omits the language in Indiana Code 36-1-8-10.5(b) which provides that the subsection is “subject to IC 3-5-9.”

Therefore, the State Board of Accounts’ position remains as so stated in the Audit Results and Comments section of this report. Any compensation paid to Mary M. Brown subsequent to October 14, 2016, related to employment with the Gary Sanitary District may be the personal responsibility of Council member Mary M. Brown pursuant to Indiana Code 3-5-9.

COMMON COUNCIL
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on February 22, 2016, with Ronald G. Brewer, Sr., President of the Common Council; LaVetta Sparks-Wade, Common Council Finance Chair; M. Celita Green, Controller; Karen Freeman-Wilson, Mayor; Michele Roby, Deputy Controller; Roxanne Williams, Internal Auditor; Lisa Jackson, Grant Administrator; and Dayna Bennett, Chief of Staff.

The content of this report titled "Subsequent Event - Government Employee Holding Office" was discussed on February 22, 2016, and August 25, 2016, with Mary M. Brown, Common Council member, and Rinzer Williams, III, Common Council legal counsel.

PARK DEPARTMENT
CITY OF GARY

PARK DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS - GOLF COURSE

Golf course personnel brought envelopes with the cash collections and credit card receipt copies to the Park Administrative office. Golf course staff wrote the amount of the cash on the face of the envelope. The Park Department secretary counted and verified the cash to the amount stated on the envelope.

However, the secretary was not able to verify the cash with a daily sales report or cash register "Z-tape," since the golf course did not remit this documentation. When we requested this documentation for audit, it was not provided. We were advised that the golf course had not retained any 2014 daily sales report or Z-tapes. Thus, the completeness of golf course collections could not be tested.

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)

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. . . ."

RECEIPT ISSUANCE AND FEES

Marquette Park

The Marquette Park Pavilion (Pavilion) did not charge the proper rental fees according to the Park Board approved fee schedule or rental contracts. The Pavilion staff permitted various discounts for rent which were not stated in the rental contracts or the Park Board approved fee schedule.

In addition, Pavilion collections were not remitted timely to the Finance Department. Collections were remitted between four to nine days after the park collection date.

Marquette and Lake Street Beach Parking

We conducted a test designed to verify that parking collections were properly recorded in the City's records and that the collections were supported by tickets issued. Our test noted that while cash collections were recorded, no tickets had been issued. The amount of cash collected exceeded the daily sales reports.

Marquette Beach parking: The daily sales reports for the credit card payments were not presented for audit. The daily reports from the cash register had only cash sales for the day. The daily folders with tickets issued did not contain tickets to support the credit card parking payments.

PARK DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Lake Street Beach parking: The cash register system did not print daily sales reports. The daily sales reports were not retained or available for audit.

Park Receipt Issuance - Parking Collection

The Park Department secretary did not issue receipts for the parking collections remitted to her. The Marquette and Lake Street Beach staff remitted the collections to the Park secretary, who counted the cash and took these collections to the Finance Department for deposit. Receipts were not written at the Park Department at the time the collections were remitted.

Hudson Campbell

We conducted a test designed to verify that receipts were properly recorded in the City's records at the time the transactions occurred, and that the collections were supported by documentation. Our testing noted that while cash collections were recorded, sales receipts were not issued for all collections. The amounts recorded by the City exceeded the daily sales reports generated by the computerized sales accounting system.

In addition, the facility did not charge the fees according to the fee schedule. The daily guest fee was changed to attract more customers but the change was not approved by the Park Board.

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. . . ."

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 5-13-6-1(d) states in part: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds . . ."

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)

PARK DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on February 22, 2016, with Victoria Ward, Park Department representative; M. Celita Green, Controller; Karen Freeman-Wilson, Mayor; Ronald G. Brewer, Sr., President of the Common Council; LaVetta Sparks-Wade, Common Council Finance Chair; Michele Roby, Deputy Controller; Roxanne Williams, Internal Auditor; and Lisa Jackson, Grant Administrator.

GENESIS CONVENTION CENTER
CITY OF GARY

GENESIS CONVENTION CENTER
CITY OF GARY
AUDIT RESULT AND COMMENT

GENESIS CONVENTION CENTER CONTRACTS AND FEES

The Genesis Convention Center (GCC) was funded by user charges for room rentals and food sales.

The GCC entered into contracts with customers based upon needs of the events. Internal controls, including segregation of duties, had not been established for the calculation of the user charge, receipt of charges and approval of the contracts. The Executive Manager prepared, calculated, and approved (signed) the rental contracts.

Based upon the fee schedule, the room charge could be waived if sufficient food sales occur. We noted that the fees charged and collected were not in accordance with the established fee schedule which resulted in both under and over charging of customers. The following discrepancies were noted:

1. Meal fees charged were not in accordance with the fee schedule.
2. The food discount or the room rental waivers for events of 100 or more individuals were not properly calculated.
3. Room rental fees were not in accordance with the schedule.
4. Service charges were not calculated in the contracts.

Additionally, we were unable to verify the calculation of fees for a City Department event as the GCC did not provide the requested contract.

Finally, the policy adopted by the GCC Board granted additional discounts to employees, board members and City officials. The discounts ranged from 25 percent to 60 percent, dependent upon the position of the individual renting the facility. These discounts resulted in the reduction or elimination of profits for these qualifying rentals. These discounts could have resulted in a taxable fringe benefit to the City employees and may have required reporting on the employees' Wage and Income Statement, Internal Revenue Service Form W-2.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Every effort should be made by the governmental unit to avoid unreasonable or excessive costs. (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)

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)

GENESIS CONVENTION CENTER
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on February 22, 2016, with Cloteal M. Labroi, Interim Manager; M. Celita Green, Controller; Karen Freeman-Wilson, Mayor; Ronald G. Brewer, Sr., President of the Common Council; LaVetta Sparks-Wade, Common Council Finance Chair; Michele Roby, Deputy Controller; Roxanne Williams, Internal Auditor; and Lisa Jackson, Grant Administrator.

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LAW DEPARTMENT
CITY OF GARY

LAW DEPARTMENT
CITY OF GARY
AUDIT RESULT AND COMMENT

EMERGENCY MEDICAL SERVICE MUTUAL AID CONTRACT

As stated in prior Report B44236, on November 16, 2012, the Fire Chief entered into a written mutual aid agreement with a private corporation for emergency medical services (EMS) on an as needed basis. The agreement included wording that it may be a necessity for the City to request dedicated resources from the private corporation to supplement an anticipated or unanticipated shortage of resources for extended periods of time at no charge to the City. As part of the agreement, the private corporation is allowed to also answer private ambulance calls from the City's fire station. The agreement was not entered into by ordinance or resolution approved by the Common Council or the attorney general as required by Indiana Code 10-14-6.5-8 and 36-1-7.

Indiana Code 10-14-6.5-4(c) states:

"This chapter may not be construed to prohibit a private entity or its employees from participating in the provision of mutual aid if:

- (1) the participating political subdivision approves the participation of the private entity;
and
- (2) a contract between the political subdivision and the participating private entity permits the participation."

Indiana Code 10-14-6.5-8 states: "A mutual aid agreement under this chapter must be approved in the same manner as interlocal cooperation agreements are approved under IC 36-1-7."

Indiana Code 36-1-7-2(a) states in part: ". . . Entities that want to do this must, by ordinance or resolution, enter into a written agreement under section 3 or 9 of this chapter."

Indiana Code 36-1-7-4(b) states:

"If subsection (a) does not apply, an agreement under section 3 of this chapter must be submitted to the attorney general for the attorney general's approval. The attorney general shall approve the agreement unless the attorney general finds that it does not comply with the statutes, in which case the attorney general shall detail in writing for the parties the specific respects in which the agreement does not comply. If the attorney general fails to disapprove the agreement within sixty (60) days after it is submitted to the attorney general, it is considered approved."

LAW DEPARTMENT AND FIRE DEPART OFFICIAL RESPONSE TO AUDIT RESULTS AND COMMENTS
EMERGENCY MEDICAL SERVICE MUTUAL AID CONTRACT

On September 9, 2014, the City received an initial audit result and comment from the State Board of Accounts (SBOA) regarding the Emergency Medical Service Mutual Aid Contract entered into by the City of Gary and Prompt Ambulance during the review meeting with the SBOA regarding the 2013 budget year. In particular, the SBOA found the City's EMS Mutual Aid Contract was not in writing as required under Indiana Code 10-14-6.5. The City disagreed with the comment because the EMS Mutual Aid Contract was in fact in writing and signed by both parties. The representatives from the SBOA acknowledged the EMS Mutual Aid Contract was in writing, but stated it was not approved by the Board of Public Works (BOW). The City requested an Indiana Code reference requiring approval by the BOW for all agreements regardless of monetary value. To date, no Indiana code reference has been provided to the City to substantiate the requirement of BOW approval for the EMS Mutual Aid Contract.

On September 11, 2014, the SBOA forwarded a modified audit result and comment regarding the EMS Mutual Aid Contract. The modified result and comment stated the EMS Mutual Aid Contract was not entered into by ordinance or resolution approved by the Gary Common Council as required by Indiana Code 10-14-6.5-8 and 36-1-7. Indiana Code 10-4-6.5-8 states mutual aid agreements must be approved in the same manner as inter-local cooperation agreements are approved under Indiana Code 36-1-7. However, Indiana Code 36-1-7 applies to political subdivisions and public entities. There is no mention of private entities in Indiana Code 36-1-7. Although the City agrees the EMS Mutual Aid Contract would require the approval of the Common Council if the agreement was entered into with another political subdivision or government entity, the EMS Mutual Aid Contract involves a private entity. As such, the City contends Indiana Code 36-1-7 is inapplicable and the audit result and comment regarding the same is in error.

Recently, the City received an additional audit result and comment concerning the EMS Mutual Aid Contract for the 2014 budget year. In addition to its previous reasoning, the SBOA stated, "[t]he agreement was not entered into by ordinance or resolution approved by the Common Council or the attorney general as required by Indiana Code 10-14-6.5-8 and 36-1-7."

The City contends this audit result and comment is also in error. Chapter 10-14-6.5 of the Indiana Code applies to Interstate Mutual Aid Agreements. Specifically, defining the type of "emergency," which would result in a scenario requiring an interstate mutual aid agreement, Indiana Code 10-14-6.5-1(3)(B) states, "it is in the public's best interest to request mutual aid from a governmental jurisdiction or private entity in another state with which the governing jurisdiction has entered into a mutual aid agreement under this chapter." Accordingly, because this agreement is between an Indiana Political Subdivision and a private Indiana Entity, Chapter 10-14-6.5 does not apply. Consequently, since Indiana Code 10-14-6.5-8 does not apply, neither does the requirement for an ordinance/resolution or attorney general approval under Indiana Code 36-1-7-4(a) or (b). As such, this agreement, despite merely containing the wording "mutual aid" should be treated as a memorandum of understanding and reviewed under Indiana Code 5-22 (Public Purchasing). Viewed under Indiana Code 5-22, this agreement complies with Indiana law.

Notwithstanding, it is the law department's understanding this agreement is no longer being used by the Fire Department. The EMS 911 dispatch is no longer under the City's authority (Lake County

consolidated 911) and the City has gotten its service levels to a point of self-sufficiency. Therefore, the EMS Mutual Aid Contract is being terminated by the City.

LAW DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on February 22, 2016, with Niquelle Allen Winfrey, Corporation Counsel; M. Celita Green, Controller; Karen Freeman-Wilson, Mayor; Ronald G. Brewer, Sr., President of the Common Council; LaVetta Sparks-Wade, Common Council Finance Chair; Michele Roby, Deputy Controller; Roxanne Williams, Internal Auditor; and Lisa Jackson, Grant Administrator.

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POLICE DEPARTMENT
CITY OF GARY

POLICE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

POLICE BUY MONEY

Reconcilements between the buy money subsidiary ledgers and the bank statements were not performed during or subsequent to the audit period. The Ordinance establishing a Buy Money program for the City Police Department (Ordinance No. 8865, adopted on December 16, 2014) stated: "the Buy Money Fund will be reconciled monthly, and a copy of the reconciliation filed with the Controller's Office."

The Buy Money was kept in two forms, partially in cash and the balance in a bank account. The Buy Money bank account was not reconciled to the Buy Money ledger. The responsible employee (Commander of Investigations) had been made aware of this issue in the prior audit but had not taken steps to obtain the bank statements needed for reconciliation

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (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)

CREDIT CARDS AND TRAVEL

The City's credit card policy stated in part: "Credit cards may be utilized by the above listed officials of the City of Gary for payment of Expenses for city business only." The credit card policy also stated in part: "supporting documents such as paid bills and receipts must be available."

Testing for compliance with the City's Credit Card Use Policy noted two instances of credit card charges totaling \$946 by the Police Department for which supporting documentation corresponding to charges on the credit card statement or the business nature of the travel expenses was not provided.

Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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KAREN FREEMAN-WILSON
Mayor

KASHONTIA SCOTT
Director of
Administrative Services

CITY OF GARY
POLICE DEPARTMENT
555 Polk Street Gary, IN 46402
Phone: (219) 881-1201 Fax: (219) 881-1259



LARRY MCKINLEY
Chief of Police

THOMAS PAPADAKIS
Deputy Chief
of Police

February 29, 2016

OFFICIAL RESPONSE

CORRECTIVE ACTION PLAN- GARY POLICE DEPARTMENT- 2/29/16

FINDING- POLICE BUY MONEY

The Gary Police Department will obtain a copy of the Bank Statements and reconcile those statements with the Buy Money Ledger. A copy of the Bank Statement will be provided to GPD (Director of Admin Services) by the Finance Department. The Director of Admin Services will provide that statement to the Commander of Investigations. Both, the Director and Commander, will sign off on the ledger affirming that the amounts reconcile. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund.

FINDING-CREDIT CARDS AND TRAVEL

The Fiscal Administrator will ensure that all credit card payments and travel reimbursements have supportive documentation that corresponds with all charges. No credit card payment or reimbursements will be processed unless proper documentation is provided to the Fiscal Administrator and approved by the Director of Administrative Services and Chief of Police.


LARRY MCKINLEY, CHIEF


KASHONTIA SCOTT, DIRECTOR

POLICE DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on February 22, 2016, with Larry McKinley, Chief of Police; Kashontia Scott, Director of Administrative Services; M. Celita Green, Controller; Karen Freeman-Wilson, Mayor; Ronald G. Brewer, Sr., President of the Common Council; LaVetta Sparks-Wade, Common Council Finance Chair; Michele Roby, Deputy Controller; Roxanne Williams, Internal Auditor; and Lisa Jackson, Grant Administrator.

FIRE DEPARTMENT
CITY OF GARY

FIRE DEPARTMENT
CITY OF GARY
AUDIT RESULT AND COMMENT

EMERGENCY MEDICAL SERVICES (EMS) BILLINGS

The City contacted with a vendor to bill and collect fees for ambulance services provided by the Fire Department. The Gary Fire Department did not compare the Patient Care Reports (PCR) generated by the Fire Department from EMS runs to the Charge Detail Report from vendor. The Fire Department did not review the Vendor Summary Reports and compare it to the actual deposit. The Fire Department did not have adequate internal controls over customer billing as well as electronic payments and deposits.

The mileage for a few customers reported to the billing vendor was rounded up to the next mile, while other customer's reported mileage was not rounded and carried out to the first decimal point. The customers who were rounded were overcharged ranging from \$1 - \$9 for the service provided.

The classification as Basic or Advance Highest experience at Scene on the PCR did not always agree with the Charge Detail Report. Customers were charged as a Basic instead of an Advance charge as stated on the PCR.

Fees should only be collected as specifically authorized by statute or properly authorized resolutions or ordinances, as applicable, which are not contrary to statutory or Constitutional provisions. (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)

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FIRE DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on February 22, 2016, with James Stanton, Jr., Deputy Fire Chief; Tia Thompson, Training Officer; Shanita D. Starks, Fire Department Business Manager; M. Celita Green, Controller; Karen Freeman-Wilson, Mayor; Ronald G. Brewer, Sr., President of the Common Council; LaVetta Sparks-Wade, Common Council Finance Chair; Michele Roby, Deputy Controller; Roxanne Williams, Internal Auditor; and Lisa Jackson, Grant Administrator.