

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, 2021 to December 31, 2021



FILED

09/19/2023

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Arlene Colvin	01-01-21 to 03-28-21
	Mileak Harper	03-29-21 to 02-28-23
	M. Celita Green	03-01-23 to 12-31-23
Mayor	Jerome Prince	01-01-21 to 12-31-23
President of the Board of Public Works and Safety	Trent A. McCain	01-01-21 to 12-31-23
President of the Common Council	William G. Godwin	01-01-21 to 12-31-23
Executive Director of the Sanitary and Storm Water Management Districts	Daniel F. Vicari	01-01-21 to 01-12-22
	Charles Peller Jr.	01-13-22 to 12-31-23
President of the Board of Sanitary and Storm Water Commissioners	Maurice Mabon	01-01-21 to 01-21-22
	Daniel F. Vicari	01-22-22 to 12-31-23



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to the audit report of the City of Gary (City), for the period from January 1, 2021 to December 31, 2021. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the City. It should be read in conjunction with the Financial Statement Audit Report of the City, which provides our opinions on the City's financial statement. This report may be found at www.in.gov/sboa/.

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 Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Beth Kelley, CPA, CFE
Deputy State Examiner

August 22, 2023

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FINANCE DEPARTMENT
CITY OF GARY

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

The same comment also appeared in four prior reports, including the three most recent Reports B53396, B56040, and B59829.

Condition and Context

There were several deficiencies in the internal control system of the City related to financial transactions and reporting. There was a lack of segregation of duties as the City had not separated incompatible activities related to cash and investments, journal entries, receipts, disbursements, and reporting to ensure the accuracy and timeliness of the recordkeeping.

Furthermore, the City did not have a process to identify or communicate corrective actions to improve internal controls. Effective internal controls over financial reporting required the City to assess risk, communicate, and monitor the quality of the system of internal controls.

Cash and Investments (Bank Reconciliations) - City and Sanitary District

Internal controls had not been designed to ensure reconcilements of the accounting record balances to the bank depository balances were completed at least monthly, as required by state statute. Furthermore, a process was not in place to ensure a combined summary monthly bank reconciliation was prepared timely to ensure that individual bank reconcilements, including the Sanitary District, agreed to the ledger and financial statement balance.

As of December 2022, the City had not reconciled a majority of the bank accounts as of December 31, 2021. As such, the City was provided additional time to prepare the required monthly reconcilements. Reconcilements as of December 31, 2021, were completed as of March 2023. Additional audit procedures were performed to test the December 31, 2021 reconcilements provided.

In reviewing the documentation provided, we noted the following items:

1. The untimely completion of the monthly bank reconciliations resulted in undocumented reconciling items. The undocumented reconciling items resulted the beginning cash and investments balances of the General fund being overstated by \$1,299,664 and the Genesis Center Operating, the Withholdings, and the LDA Casino being understated by \$55,000, \$349,590, and \$632,794, respectively. The Common Council approved the beginning cash and investments balances adjustments in August 2023. The ledger and financial statement were adjusted for these items as approved.
2. The City determined that a debt service reserve account was not timely posted for the 2020 Sanitary District Refunding Revenue Bonds. This resulted in the beginning cash and investments balance being understated by \$2,212,000. The ledger and financial statement were adjusted for this item.
3. The General fund receipts and disbursements were both overstated by \$2,619,791 for bank-to-bank activity that should not have been reported. The financial statement was adjusted for this item.

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

4. The GSD Bond and Interest and the GSD Equipment Replacement funds disbursements were understated by \$340,612 and \$1,199,806, respectively, for mid-year electronic fund transfers (EFTs) for a debt payment and a payment made to the Department of the Army Corps of Engineers which were not posted to the ledger at the time of payment. The ledger and financial statement were adjusted for these items.
5. Some bank accounts owed amounts to other bank accounts. These amounts should have been transferred and should net to zero. However, the "transfers to banks" did not reconcile to the "transfer from banks" by \$85,440 as of December 31, 2021. The financial statement was not adjusted for these variances.
6. Outstanding check detailed listings generated from the software system were determined to not be reliable for the operating bank accounts. The listings included EFTs and checks that had cleared the bank. Additional audit procedures were performed to determine the accuracy of the listings.

A combined bank reconciliation of all bank accounts, including the Sanitary District, identified a variance of \$844,067 as of December 31, 2021, when compared to the adjusted ledger and financial statement. The financial statement was not adjusted for these variances.

Journal Entries

The City did not have an effective system of internal controls to ensure that journal entries were posted accurately and timely. One employee and the City Controller made all journal entries; however, there was no review process in place to ensure journal entries were posted accurately and timely.

Receipts - City

The City had not designed and implemented a process of review over receipts, specifically state distributions to ensure they were recorded timely. Various state distributions received in 2021, totaling \$92,436, were not recorded in the ledger or reported in the financial statement. As of April 2023, these distributions had not been posted. The financial statement was not adjusted for these distributions received and not timely posted.

Health Insurance Disbursements

An effective internal control system was not in place to ensure that monthly health insurance premium payments were recorded accurately.

Disbursements for payroll withholdings for health insurance benefits for 2021 were posted throughout the year; however, the amounts posted did not agree to the amounts electronically transferred out of the City's bank accounts each month.

Payments totaling \$9,182,357 to the City's health insurance provider for 2021 were verified as clearing the bank throughout the year. However, the ledger reported \$10,271,719 in health insurance costs, as such disbursements were overstated by \$1,089,362. The overstated disbursements were considered reconciling items on the December 31, 2021 bank reconciliation. The financial statement was not adjusted for this item.

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

Additionally, the 2020 overstatement of disbursements, totaling \$1,186,883 that were to be voided remained on the December 31, 2021 reconcilements as reconciling items. As of June 2023, only \$824,407 of this outstanding total had been voided. The financial statement was not adjusted for this item.

Payroll Disbursements

The City did not have documented internal controls over payroll disbursements. In October 2021, the City contracted with an outside vendor for the processing of payroll. The department head or timekeeper was to review their respective employees' pay, hours worked, and fund and account paid from; however, the review was not documented or provided for audit. Additionally, either the City Controller or Accountant were to review payroll reports prior to payment; however, this process was not consistently documented.

Financial Reporting

The City prepared and submitted the financial information into Gateway, which was the source for the financial statement, from the City's financial accounting system. There was no evidence of an oversight or review process to detect and correct errors prior to submission.

Due to the lack of internal controls over cash and investments, journal entries, receipts, and disbursements, the following adjustments were proposed, accepted by the City, and made to the financial statement and required supplementary information - combining schedule presented in the Financial Statement Audit Report:

1. The beginning cash and investments balances were understated by \$1,949,720 as noted above under *Cash and Investments (Bank Reconciliations) - City and Sanitary District*.
2. Receipt reconciling items, which includes the bank-to-bank activity as noted above under *Cash and Investments (Bank Reconciliations) - City and Sanitary District*, were noted for the General, the Ambulance/Ems Nonreverting, the Health and Human Services, the GSD Bond and Interest, and the GSD Equipment Replacement funds, which resulted in receipts being overstated by \$2,463,958.
3. Disbursement reconciling items, which includes the bank-to-bank activity and untimely posting of disbursements as noted above under *Cash and Investments (Bank Reconciliations) - City and Sanitary District*, were noted for the General, the Genesis Center Operating, the GSD Bond and Interest, the GSD Equipment and Replacement, the GSD Wwtp General Operating, the Withholdings, and the LDA Casino funds, which resulted in disbursements being overstated by \$615,823.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

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

"Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis for determining how risk will be managed. . . .

Management identifies risks to the achievement of the political subdivision's objectives across the unit as a whole and within each office or department. Analysis of risk through determination of objective measures and variance tolerance is the basis for determining how the risks should be managed. The response to risk is selected: acceptance, avoidance, reduction, or sharing. . . .

Internal control is a process, and part of that process is the responsibility for management to be continually aware of changes, both external and internal, that could affect the achievement of the political subdivision's objectives. Those changes should be analyzed for both their immediate effect and for any future impact. Management would then determine any modifications needed in the internal control process to adapt to these changes."

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. Clear documentation should be maintained for continuity as well as ease of communication to outside parties. . . ."

"Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the organization. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

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

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."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

All documents and entries to records must be made in a timely manner to ensure that accurate financial information is available to allow the unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

"The state examiner shall require from every audited entity 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](#)."

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

OVERDRAWN CASH BALANCES

The same comment also appeared in 16 prior reports, including the 3 most recent Reports B53396, B56040, and B59829.

Condition and Context

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2021. 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. The City funds with overdrawn cash balances at December 31, 2021, including the grant funds with no reimbursements received in January 2022, are listed below:

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

Fund	Amount Overdrawn
National Civ Rights	\$ 4,950
WCI/UCI Benefit	1,882,451
Maternal Child Health Infant Mortality	26,521
Cedit	544,665
COG Youth Council	1,242
Tobacco	63,765
BUILDING COMMUNITY TRUST	366
MOTORCYCLE GRAN	1,553
JAG Grant	29,710
Distracted Driving	26,660
Safe & Thriving Grant	18,850
HIV Prevention	18,569
Equal Opportunity Commission Hr	6,758
Youth Services Bureau	20,639
Emergency Shelter	841,736
Landfill Closure	9,715
Health And Human Services	776,014
Bioterrorism	15,387
Community Development Block Grant	115,432
Fair Housing Project	9,071
Genesis Civic Center	14,783
Alcohol And Drug Treatment	73,647
Supplemental Public Defender	10,320
Salary Fee Judicial	52,324
Lake Michigan Coastal	31,713

The Emergency Shelter and the Health and Human Services funds have remained overdrawn for at least 15 years.

The General fund reported a positive cash and investments balance as of December 31, 2021. However, the General fund's cash balance contained outstanding temporary loans owed to other funds of \$11,327,927. Without these temporary loans, the cash balance of the General fund would have been overdrawn by \$5,657,496.

Criteria

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 unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TEMPORARY TRANSFER OF FUNDS

The same comment also appeared in 16 prior reports, including the 3 most recent Reports B53396, B56040, and B59829.

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

Condition and Context

Various temporary transfers between certain funds had been made and not repaid within the time frame permitted by statute. The Common Council approved ordinances in 2021 and 2023 to roll over the loans outstanding; however, the City is only allowed to extend the repayment for six months if an emergency exists.

The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2021:

Loan To	Loan From	Loans Outstanding January 1, 2021	Loans Made	Loans Repaid	Loans Outstanding December 31, 2021
General	Other City Funds (Excluding GSD Funds)	\$ 7,320,800	\$ 3,000,000	\$ 3,250,000	\$ 7,070,800
General	GSD Funds	4,257,127	-	-	4,257,127
Other City Funds (Excluding GSD Funds)	Other City Funds (Excluding GSD Funds)	4,976,167	-	1,363,041	3,613,126
GSD Funds	GSD Funds	1,600,000	-	1,600,000	-
Totals		<u>\$ 18,154,094</u>	<u>\$ 3,000,000</u>	<u>\$ 6,213,041</u>	<u>\$ 14,941,053</u>

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	GSD Equipment Replacement	\$ 4,257,127	2006
General	Media	400,000	2010
General	Remote Encoding Center	500,000	2010
Parks and Recreation	Consolidated Area TIF District	380,000	2010
General	Media	600,000	2011
General	Consolidated Area TIF District	308,800	2011
General	Consolidated Area TIF District	300,000	2011
General	Consolidated Area TIF District	32,000	2012
Lancaster Dusable TIF District	Lakefront TIF District	40,317	2012
General	Lakefront TIF District	2,010,000	2014
General	Lakefront TIF District	1,000,000	2015
General	Lakefront TIF District	1,200,000	2016
Gleason Golf Course	Parks and Recreation	21,000	2016
Park Nonreverting	Parks and Recreation	5,000	2016
General	Lakefront TIF District	720,000	2017
Parks and Recreation	Wheel Tax	240,329	2017
Consolidated Area TIF District	Midwest Center TIF District	191,480	2019
RdMp Aux Non-Reverting	Consolidated Area Tif District	2,000,000	2020
Blight Elimination	Lakefront Tif District	735,000	2020
Total		<u>\$ 14,941,053</u>	

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

Temporary transfers between the City's General fund and the GSD Equipment Replacement fund had been made and not repaid within the time frame permitted by statute. The City's General fund owes the GSD Equipment Replacement fund \$4,257,127, which has been outstanding since 2006. Per the City's Consent Decree - Summary of Schedule of Deadlines, by January 31, 2025, these temporary transfers of funds are to be fully repaid.

Additionally, temporary transfers totaling \$3,000,000 from the General fund to the Fire Pension and the Police Pension funds were recorded on April 21, 2021. These temporary loans were not approved by the Common Council until September 7, 2021.

Criteria

Indiana Code 36-1-8-4 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."

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

ANNUAL FINANCIAL REPORT

Condition and Context

Financial, supplemental, and other information are required to be entered annually into the Annual Financial Report (AFR) via the Indiana Gateway for Government Units Financial (Gateway) reporting system. The City had not established effective internal controls over the AFR information entered into Gateway, which resulted in the following errors:

Grants

1. The COVID-19 - Coronavirus Relief Fund expenditures were omitted, which resulted in the understatement of expenditures by \$2,342,945.
2. The COVID-19 - Coronavirus State and Local Fiscal Recovery Funds expenditures were omitted, which resulted in the understatement of expenditures by \$4,189,930.
3. Several additional grants had individually immaterial errors that resulted in misstatements of expenditures of \$851,454, in total.
4. Other errors included incorrect program names and amounts passed through to sub-recipients.

Audit adjustments were proposed, accepted by the City, and made to the Schedule of Expenditures of Federal Awards (SEFA) presented in the Federal Compliance Audit Report of the City.

Capital Assets

The City was unable to provide a detailed capital asset record to support the capital asset amounts reported in the AFR. The City approved the omission of the Schedule of Capital Assets from the Financial Statement Audit Report.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

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

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. Clear documentation should be maintained for continuity as well as ease of communication to outside parties. . . ."

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

"The state examiner shall require from every audited entity 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](#)."

CAPITAL ASSETS

This same comment appeared in a Management Letter addressed to the Mayor, the Common Council, and the City Controller for the audit periods ending December 31, 2019 and 2020.

Condition and Context

The City was unable to provide a detailed capital asset record to support the capital assets reported in the Annual Financial Report on the Indiana Gateway for Government Units financial reporting system. We were unable to verify that additions for assets purchased or deletions for assets disposed were properly recorded for 2021. Furthermore, we could not determine if a complete physical inventory was taken at least every two years as required.

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TIMELY RECORDING

Condition and Context

The following financial transactions were not recorded in the records of the City at the time of transaction as required:

1. In October 2021, the City contracted with an outside vendor for the processing of payroll. After this transition, the City did not timely or completely record the October and November payroll withholdings disbursements. These withholdings were not recorded until December 2021.

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

In addition, the City did not timely, accurately, or completely record the October, November, and December payroll withholdings receipts. This resulted in the Withholdings fund to have a large negative balance. Then in April 2022, the City recorded a \$1,485,191 transfer from the General fund to the Withholdings fund as of December 31, 2021, to balance the Withholdings fund. The disbursement side of the transfer was posted to the General fund and was not proportionally split by all funds that pay payroll.

2. The City did not receipt the 2020 Coronavirus Relief Fund (CRF) distribution when it was received. The City receipted the 2020 CRF distribution in combination with the 2021 CRF distribution when it was received in 2021. This resulted in a \$99,488 overstatement of receipts in 2021.
3. Only \$266,949 of the \$348,178 December General Commercial Vehicle Excise Tax and Financial Institution Tax distributions received from the county were receipted. This was due to \$81,229 of these distributions being deposited separately into the Sanitary District's bank account and was not separately receipted. This error has not been corrected as of July 2023.
4. The June Tax Increment Financing distributions were receipted for more than what the City received due to the amount withheld by the county for refunds. This resulted in the overstatement of receipts by \$53,425.
5. There were 29 distributions received from the State of Indiana that were either not posted or not posted timely. Twenty-four distributions tested were posted between 35 and 349 days after the day of deposit into the City's bank account. Five distributions not posted resulted in an understatement of \$92,836 and remained uncorrected as of July 2023.
6. Distributions received from the State of Indiana from 2018 to 2020 totaling \$818,781 remain unposted as of July 2023.
7. All 10 police department receipts tested were not recorded timely. The receipts were posted 3 to 26 days after the time of transaction.

Criteria

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

ERRORS ON CLAIMS

The same comment also appeared in three prior Reports B53396, B56040, and B59829.

Condition and Context

The following errors were noted in the testing of disbursements:

1. Disbursements for transfers of subsidies and corrections totaling \$13,213,637 were done via journal entry or wire transfer and were not properly supported by an Accounts Payable Voucher (APV) as required by law. These transfers were not certified by the fiscal officer or approved by the governing board either on an APV or register of APVs.
2. Of the payments made to the City's health insurance provider, \$9,182,357 were paid via wire transfer and did not go through the regular claims process. These wire transfers were not properly supported by an Accounts Payable Voucher (APV) as required by law. In addition, the disbursements were not certified by the fiscal officer or approved by the governing board on an APV or register of APVs.

Criteria

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;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim. . . ."

SUBSEQUENT EVENTS - TIMELINESS OF RECONCILIATIONS

The same comment also appeared in two prior Reports B56040 and B59829.

Condition and Context

As of July 20, 2023, the City had not completed monthly bank reconciliations for several of the City's primary operating bank accounts for 2022 and 2023.

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

Criteria

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."

COMPENSATION AND BENEFITS

Condition and Context

Variances were noted in 10 of the 25 payroll checks tested when comparing actual gross pay rates to the governing body approved salary ordinances and schedules.

1. Variances were noted in four of the payroll checks tested for firefighters, emergency medical services (EMS), and police officers. Upon further inquiry, City officials explained that additional compensation for firefighters, EMS, and police officers were negotiated in a new collective bargaining agreement in which salaries were increased and provided a schedule of these increased rates. However, the City could not provide the new collective bargaining agreements or that the appropriate governing body had approved the new bargaining agreements and increased rates.
2. For one employee pay tested, the governing body approved an annual salary which was paid biweekly and divided by 26. However, based on the calendar, there were 27 pay dates in 2021. This resulted in the employee to be paid more than the approved annual salary. An approved policy on how the City was to address the 27th pay was not provided.
3. Variances were noted in five other payroll checks tested when compared to the approved amount from the governing board which could not be explained by City officials.

Criteria

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

GATEWAY UPLOADS

The same comment also appeared in prior Reports B56040 and B59829.

Condition and Context

The files and governmental unit information that are required to be uploaded monthly include the bank reconciliations, bank statements, outstanding check lists, approved board minutes, and the funds ledger, summarizing total receipts, disbursements, and balances by fund.

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

Annual upload requirements include the year-end investment statements, detail of receipt activity, detail of disbursement activity, current year salary ordinance and amendments, annual vendor history report, annual funds ledger, annual payroll history report, and court trust fund subsidiary detail.

The City did not comply with Amended State Examiner Directive 2018-1 (Directive) and failed to upload any of the monthly or annual files on the Indiana Gateway for Government Units (Gateway) financial reporting system for 2021, except for monthly bank reconcilements. However, many of the bank reconcilements were not uploaded timely, that is, no later than the 15th day of the second succeeding month required by the Directive. Additionally, the City did not upload reconcilements for all of its bank accounts.

Criteria

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients.

A user guide for the Engagement Uploads is available and located at:
<https://gateway.ifionline.org/userguides/engagementguide> **It is pertinent that this user guide be used in conjunction with this Directive.** It provides critical information to you that will help guide you to uploading the correct documents.

(Amended State Examiner Directive 2018-1)

FINANCE DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on August 22, 2023, with M. Celita Green, City Controller; Yvette Williams, Deputy City Controller; William G. Godwin, President of the Common Council; Tai A. Adkins, Common Council member; Jerome Prince, Mayor; Angela Lockett, Corporation Counsel; Karl Cender, Financial Advisor; Arlene Colvin, former City Controller; Joy Holliday, Chief of Staff; Loureather Allen, Internal Auditor; and Trent A. McCain, Deputy Mayor.

COMMON COUNCIL
CITY OF GARY

COMMON COUNCIL
CITY OF GARY
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The same comment also appeared in 16 prior reports, including the 3 most recent Reports B53396, B56040, and B59829.

Condition and Context

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2021. 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. The City funds with overdrawn cash balances at December 31, 2021, including the grant funds with no reimbursements received in January 2022, are listed below:

Fund	Amount Overdrawn
National Civ Rights	\$ 4,950
WCI/UCI Benefit	1,882,451
Maternal Child Health Infant Mortality	26,521
Cedit	544,665
COG Youth Council	1,242
Tobacco	63,765
BUILDING COMMUNITY TRUST	366
MOTORCYCLE GRAN	1,553
JAG Grant	29,710
Distracted Driving	26,660
Safe & Thriving Grant	18,850
HIV Prevention	18,569
Equal Opportunity Commission Hr	6,758
Youth Services Bureau	20,639
Emergency Shelter	841,736
Landfill Closure	9,715
Health And Human Services	776,014
Bioterrorism	15,387
Community Development Block Grant	115,432
Fair Housing Project	9,071
Genesis Civic Center	14,783
Alcohol And Drug Treatment	73,647
Supplemental Public Defender	10,320
Salary Fee Judicial	52,324
Lake Michigan Coastal	31,713

The Emergency Shelter and the Health and Human Services funds have remained overdrawn for at least 15 years.

The General fund reported a positive cash and investments balance as of December 31, 2021. However, the General fund's cash balance contained outstanding temporary loans owed to other funds of \$11,327,927. Without these temporary loans, the cash balance of the General fund would have been overdrawn by \$5,657,496.

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

Criteria

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 unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TEMPORARY TRANSFER OF FUNDS

The same comment also appeared in 16 prior reports, including the 3 most recent Reports B53396, B56040, and B59829.

Condition and Context

Various temporary transfers between certain funds had been made and not repaid within the time frame permitted by statute. The Common Council approved ordinances in 2021 and 2023 to roll over the loans outstanding; however, the City is only allowed to extend the repayment for six months if an emergency exists.

The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2021:

Loan To	Loan From	Loans Outstanding January 1, 2021	Loans Made	Loans Repaid	Loans Outstanding December 31, 2021
General	Other City Funds (Excluding GSD Funds)	\$ 7,320,800	\$ 3,000,000	\$ 3,250,000	\$ 7,070,800
General	GSD Funds	4,257,127	-	-	4,257,127
Other City Funds (Excluding GSD Funds)	Other City Funds (Excluding GSD Funds)	4,976,167	-	1,363,041	3,613,126
GSD Funds	GSD Funds	1,600,000	-	1,600,000	-
Totals		<u>\$ 18,154,094</u>	<u>\$ 3,000,000</u>	<u>\$ 6,213,041</u>	<u>\$ 14,941,053</u>

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

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	GSD Equipment Replacement	\$ 4,257,127	2006
General	Media	400,000	2010
General	Remote Encoding Center	500,000	2010
Parks and Recreation	Consolidated Area TIF District	380,000	2010
General	Media	600,000	2011
General	Consolidated Area TIF District	308,800	2011
General	Consolidated Area TIF District	300,000	2011
General	Consolidated Area TIF District	32,000	2012
Lancaster Dusable TIF District	Lakefront TIF District	40,317	2012
General	Lakefront TIF District	2,010,000	2014
General	Lakefront TIF District	1,000,000	2015
General	Lakefront TIF District	1,200,000	2016
Gleason Golf Course	Parks and Recreation	21,000	2016
Park Nonreverting	Parks and Recreation	5,000	2016
General	Lakefront TIF District	720,000	2017
Parks and Recreation	Wheel Tax	240,329	2017
Consolidated Area TIF District	Midwest Center TIF District	191,480	2019
Rd/vp Aux Non-Reverting	Consolidated Area Tif District	2,000,000	2020
Blight Elimination	Lakefront Tif District	<u>735,000</u>	2020
Total		<u>\$ 14,941,053</u>	

Temporary transfers between the City's General fund and the GSD Equipment Replacement fund had been made and not repaid within the time frame permitted by statute. The City's General fund owes the GSD Equipment Replacement fund \$4,257,127, which has been outstanding since 2006. Per the City's Consent Decree - Summary of Schedule of Deadlines, by January 31, 2025, these temporary transfers of funds are to be fully repaid.

Additionally, temporary transfers totaling \$3,000,000 from the General fund to the Fire Pension and the Police Pension funds were recorded on April 21, 2021. These temporary loans were not approved by the Common Council until September 7, 2021.

Criteria

Indiana Code 36-1-8-4 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: . . .

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

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

(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."

Sources and uses of funds must be limited to those authorized by the enabling law, ordinance/ resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TRAINING ON INTERNAL CONTROL STANDARDS

The same comment also appeared in prior Report B59829.

Condition and Context

Not all the employees whose official duties included receiving, processing, depositing, disbursing, or otherwise having access to funds that belong to the federal government, state government, a political subdivision, or another governmental entity, had received training over the internal control standards. Of the 20 employees tested, 6 had not completed the training.

Criteria

Indiana Code 5-11-1-27(g) states in part:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

COMMON COUNCIL
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on August 22, 2023, with M. Celita Green, City Controller; Yvette Williams, Deputy City Controller; William G. Godwin, President of the Common Council; Tai A. Adkins, Common Council member; Jerome Prince, Mayor; Angela Lockett, Corporation Counsel; Karl Cender, Financial Advisor; Arlene Colvin, former City Controller; Joy Holliday, Chief of Staff; Loureather Allen, Internal Auditor; and Trent A. McCain, Deputy Mayor.

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF GARY

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF GARY
AUDIT RESULTS AND COMMENTS

PUBLIC PURCHASES - POLICE VEHICLES

The same comment also appeared in prior Report B59829.

Condition and Context

There was no documentation that the Board of Public Works and Safety approved the contract for the purchase of police vehicles and trucks totaling \$1,071,604. Documentation of how the vehicles were procured was not provided for audit.

We were unable to determine the procurement method used to allow the public purchase of more than \$150,000.

Criteria

Indiana Code 5-22-7-1 states: "A purchasing agent shall follow the procedure described in this chapter in awarding a contract for supplies, unless another purchasing method is required or authorized by this article."

Indiana Code 5-22-7-2 states:

"(a) A purchasing agent shall issue an invitation for bids.

(b) An invitation for bids must include the following:

- (1) A purchase description.
- (2) All contractual terms and conditions that apply to the purchase.
- (3) A statement of the evaluation criteria that will be used, including any of the following:
 - (A) Inspection.
 - (B) Testing.
 - (C) Quality.
 - (D) Workmanship.
 - (E) Delivery.
 - (F) Suitability for a particular purpose.
 - (G) The requirement imposed under [IC 5-22-3-5](#).
- (4) The time and place for opening the bids.
- (5) A statement concerning whether the bid must be accompanied by a certified check or other evidence of financial responsibility that may be imposed in accordance with rules or policies of the governmental body.
- (6) A statement concerning the conditions under which a bid may be canceled or rejected in whole or in part as specified under [IC 5-22-18-2](#)."

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Indiana Code 5-22-7-5(a) states: "The purchasing agent shall give notice of the invitation for bids in the manner required by [IC 5-3-1](#)."

Indiana Code 5-22-7-6 states: "The purchasing agent shall open bids publicly in the presence of one (1) or more witnesses at the time and place designated in the invitation for bids."

Indiana Code 5-22-7-7 states:

"Bids must be:

- (1) unconditionally accepted without alteration or correction, except as provided in sections 11 through 13 of this chapter; and
- (2) evaluated based on the requirements provided in the invitation for bids."

Indiana Code 5-22-7-8 states: "A contract must be awarded with reasonable promptness by written notice to the lowest responsible and responsive bidder."

Indiana Code 5-22-10-3 states:

"(a) A purchasing agent shall maintain the contract records for a special purchase in a separate file.

(b) A purchasing agent shall include in the contract file a written determination of the basis for:

- (1) the special purchase; and
- (2) the selection of a particular contractor.

(c) Notwithstanding any other law, a governmental body shall maintain a record listing all contracts made under this chapter for a minimum of five (5) years. The record must contain the following information:

- (1) Each contractor's name.
- (2) The amount and type of each contract.
- (3) A description of the supplies purchased under each contract.

(d) The contract records for a special purchase are subject to audit by the state board of accounts."

DISCLOSURE OF RELATED-PARTY TRANSACTION

Condition and Context

The City contracted with Darnail Lyles for advisory services to the Mayor for \$65,000. The professional services agreement stated: "Advisor shall advise the Mayor and Executive Branch departments, boards, and agencies, excluding GCIAA, and represent their employees, as assigned, in any situation arising out of the performance of their duties or within the scope of their employment with the City."

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Darnail Lyles is also an appointed member of the Sanitary District Board of Commissioners and the Stormwater Management District Board of Commissioners and was paid \$12,652 for those duties.

Based upon the circumstances, the Indiana State Board of Accounts would have expected to receive a conflict of interest disclosure for this related party transaction. There was not one on file during the audit period that covered this matter.

Criteria

Indiana Code 35-44.1-1-4(d) states in part:

"A disclosure must:

- (1) be in writing;
- (2) describe the contract or purchase to be made by the governmental entity;
- (3) describe the pecuniary interest that the public servant has in the contract or purchase;
- (4) be affirmed under penalty of perjury;
- (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the governmental entity before final action on the contract or purchase;
- (6) be filed within fifteen (15) days after final action on the contract or purchase with:
 - (A) the state board of accounts; and
 - (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase; . . ."

Conflict of interest disclosures must be completed on Gateway.

The attorney for the unit or a private attorney must be consulted in regard to whether a conflict of interest disclosure statement must be filed and whether the format of the disclosure is sufficient. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on August 22, 2023, with M. Celita Green, City Controller; Yvette Williams, Deputy City Controller; Jerome Prince, Mayor; Trent A. McCain, Deputy Mayor and President of the Board of Public Works and Safety; Arlene Colvin, Vice President of the Board of Public Works and Safety; Angela Lockett, Board of Public Works and Safety member; Marianetta L. Barber, Board of Public Works and Safety Clerk; Joy Holliday, Chief of Staff; and Loureather Allen, Internal Auditor.

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SANITARY DISTRICT
CITY OF GARY

SANITARY DISTRICT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS

The same comment also appeared in prior Report B59829.

Condition and Context

There were several deficiencies in the internal control system of the Sanitary District related to financial transactions. There was a lack of segregation of duties as the Sanitary District had not separated incompatible activities related to cash and investments, receipts, and disbursements to ensure the accuracy and timeliness of the recordkeeping.

The Sanitary District did not have a process to identify or communicate corrective actions to improve internal controls. Effective internal controls over financial reporting required the City to assess risk, communicate, and monitor the quality of the system of internal controls.

In addition, the Sanitary District's computer network was compromised in February 2023. As a result, documentation of internal controls procedures, such as approvals, were not available for audit.

Cash and Investments (Bank Reconciliations) - Sanitary District

The Sanitary District had designed a process of review or oversight over the bank reconciliations; however, the process was not consistently documented throughout the audit period. A consultant reconciled the bank accounts for the Sanitary District funds. The reconciliations were subsequently reviewed by Sanitary District officials as documented by a signature.

The Sanitary District process was to have the bank reconciliations reviewed and uploaded on the Indiana Gateway for Government Units (Gateway) financial reporting system by the 15th of the second following month, to comply with the Gateway deadlines. The bank reconciliations were not considered complete until reviewed. However, for the three months tested, the bank reconciliations were not completed timely and did not have documentation of a review process.

Additionally, the Sanitary District 2021 bank reconciliations contained unidentified outstanding reconciling items and adjustments totaling \$87,500, unidentified outstanding checks totaling \$124,002, and unidentified deposits in transit totaling \$203,036 which the Sanitary District could not provide supporting documentation to verify the validity and accuracy of the item. The financial statement was not adjusted for these variances.

Receipts

The Sanitary District had designed a process of review to ensure the accuracy, completeness, timeliness, and classification of the receipts posted as a part of the monthly bank reconciliation. However, documentation of the review process over the bank reconciliations, which included the review process for receipts, was not consistently documented throughout the audit period as noted above under *Cash and Investments (Bank Reconciliations) - Sanitary District*.

Disbursements

The Sanitary District designed a process of review or oversight to ensure the accuracy, completeness, timeliness, and classification of the disbursements posted. However, documentation of the review process, which included email documentation, was not available.

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

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

"Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. Each identified risk is evaluated in terms of its impact and likelihood of occurrence. Overall, risk assessment is the basis for determining how risk will be managed. . . .

Management identifies risks to the achievement of the political subdivision's objectives across the unit as a whole and within each office or department. Analysis of risk through determination of objective measures and variance tolerance is the basis for determining how the risks should be managed. The response to risk is selected: acceptance, avoidance, reduction, or sharing. . . .

Internal control is a process, and part of that process is the responsibility for management to be continually aware of changes, both external and internal, that could affect the achievement of the political subdivision's objectives. Those changes should be analyzed for both their immediate effect and for any future impact. Management would then determine any modifications needed in the internal control process to adapt to these changes."

"Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information. Internal communication enables personnel to receive a clear message that control responsibilities are taken seriously by the organization. External communication enables relevant outside information to be internalized and internal information to be clearly communicated to external parties. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

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

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

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."

When it is determined that an error has been posted in the financial records, the error must be corrected in a timely manner. The correction of the error should be dated as of the date that the correction occurred and should not be back dated to the date the error occurred. The adjustment should be labeled as a correcting entry. All documentation of the error and the adjustments must be maintained to support the correction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

- (1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.
- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

DELINQUENT WASTEWATER ACCOUNTS

The same comment also appeared in eight prior reports, including the three most recent Reports B53396, B56040, and B59829.

Condition and Context

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.

The Sanitary District and the Storm Water Management District (District) did not fulfill their responsibility to collect amounts owed to the District for stormwater and wastewater charges. No further action was taken by the District to collect the unpaid fees or write-off the amounts owed.

In September 2021, the Sanitary District converted to a new utility billing system. Delinquent accounts from the former system were converted to the new billing system. However, the delinquent accounts billed prior to January 2018 were merged into one summary account in the new billing system, thus, the Sanitary District no longer had access to aging reports identifying individual accounts and subsequent payments on these accounts.

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

Furthermore, the aging of each account was not retained, nor was that information transferred to the new system. Therefore, the \$19,201,512 accounts receivable balance at December 31, 2021, included no aging history to be evaluated. Historically, approximately \$6.6 million was outstanding for over three years. In addition, collection on the converted delinquent accounts billed prior to January 2018 was not possible due to the summarization of billing information in the new software.

Criteria

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

"Except as otherwise provided in subsection (h) or in an ordinance provision described in subsection (l), fees assessed against real property under this section also constitute a lien against the property assessed. The lien attaches at the time of the filing of the notice of lien in the county recorder's office. The lien is superior to all other liens except tax liens, and shall be enforced and foreclosed in the same manner as is provided for liens under [IC 36-9-23-33](#) and [IC 36-9-23-34](#)."

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

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

(1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:

(A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.

(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. . . ."

Indiana Code 5-15-6-3 states:

"No financial records or records relating to financial records shall be destroyed until the earlier of the following actions:

(1) The audit of the records by the state board of accounts has been completed, report filed, and any exceptions set out in the report satisfied.

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

- (2) The financial record or records have been copied or reproduced in accordance with a retention schedule or with the written consent of the administration."

The governing body of a unit must have a written policy concerning a procedure for the writing off of bad debts, uncollectible accounts receivable, or any adjustments to record balance. Documentation must exist for all efforts made by the unit to collect amounts owed prior to any write-offs. Write-offs or adjustments to records which are not documented or warranted may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TEMPORARY TRANSFER OF FUNDS

The same comment also appeared in 16 prior reports, including the 3 most recent Reports B53396, B56040, and B59829.

Condition and Context

Temporary transfers between the City's General fund and the GSD Equipment Replacement fund had been made and not repaid within the time frame permitted by statute. The City's General fund owes the GSD Equipment Replacement fund \$4,257,127, which has been outstanding since 2006. Per the City's Consent Decree - Summary of Schedule of Deadlines, by January 31, 2025, these temporary transfers of funds are to be fully repaid.

Criteria

Indiana Code 36-1-8-4 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.

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

- (2) Immediately forwards the ordinance or resolution to the state board of accounts and the department of local government finance."

COMPENSATION AND BENEFITS

Condition and Context

The Sanitary District approved a salary schedule by position which detailed the annual salaries to be paid to employees for 2021. The Sanitary District pays employees on a biweekly basis and determined the bi-weekly amount based upon 26 pays. However, based on the calendar, there were 27 pay dates in 2021. This resulted in the salary-based employees to be paid more than the approved annual salary. An approved policy on how the Sanitary District was to address the 27th pay was not provided.

Furthermore, throughout 2021, "merit pay" was paid to various Sanitary District employees and Board of Commissioners members totaling \$162,328. The District Board approval for the merit pay payments or documentation to substantiate the amounts paid were not provided.

One hourly rate employee pay tested had a variance when compared to the approved amount from the governing board which could not be explained by officials.

Criteria

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

Each unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CAPITAL ASSETS

A similar comment appeared in a Management Letter addressed to the Mayor, the Sanitary District Board of Commissioners, and the Storm Water Management District Board of Directors for the audit periods ending December 31, 2019 and 2020.

Condition and Context

The Sanitary District and the Storm Water Management District were unable to provide a detailed capital asset record to support the capital assets reported in the City's Annual Financial Report on the Indiana Gateway for Governmental Units financial reporting system. We were unable to verify that additions for assets purchased or deletions for assets disposed were properly recorded for 2021. Furthermore, we could not determine if a complete physical inventory was taken at least every two years as required.

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

Criteria

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CONTRACT

Condition and Context

During 2021, the Sanitary District purchased insurance via an insurance broker and paid the broker \$566,440. A written contract specifying the services to be provided by the insurance broker was not provided.

Criteria

Payments made or received for contractual services must be supported by a written contract. Each unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

SUBSEQUENT EVENTS - UTILITY RECEIPT TRANSACTIONS

Condition and Context

As of July 11, 2023, the Sanitary District had not posted any 2023 collection activity receipts to the Gary Storm Water Management District (GSWMD) fund or the Gsd Wwtp General Operating fund.

As of August 2, 2023, receipts totaling \$17,350,321 were posted to the Gsd Wwtp General Operating fund which were back dated throughout 2023, however, the GSWMD fund still had no 2023 receipts posted.

Criteria

All financial transactions pertaining to the unit must be recorded in the records of the unit at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

SUBSEQUENT EVENTS - MERIT PAY

Condition and Context

In 2022, it was determined that "merit pay" payments were made to various Sanitary District employees and Board of Commissioners members totaling \$158,780. The District Board approval for the merit pay payments or documentation to substantiate the amounts paid were not provided.

Criteria

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

SANITARY DISTRICT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on August 22, 2023, with M. Celita Green, City Controller; Yvette Williams, Deputy City Controller; Jerome Foster, Sanitary District Finance Manager; Charles Peller Jr., Executive Director; Daniel F. Vicari, President of the Boards of Sanitary and Storm Water; Maurice Mabon, Vice President of the Boards of Sanitary and Storm Water; Ola V. Morris, Secretary of the Boards of Sanitary and Storm Water; Charles W. Jackson Jr., Sanitary and Storm Water Board member; Darnail Lyles, Sanitary and Storm Water Board member; Eric Cender, Financial Advisor; and Loureather Allen, Internal Auditor.