

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, 2022 to December 31, 2022



FILED
09/16/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Mileak Harper	01-01-22 to 02-28-23
	M. Celita Green	03-01-23 to 12-31-24
Mayor	Jerome Prince	01-01-22 to 12-31-23
	Eddie D. Melton	01-01-24 to 12-31-24
President of the Board of Public Works and Safety	Trent A. McCain	01-01-22 to 12-31-23
	Michael L. Suggs	01-01-24 to 12-31-24
President of the Common Council	William G. Godwin	01-01-22 to 08-27-23
	Tai A. Adkins (acting)	08-28-23 to 12-31-23
	Tai A. Adkins	01-01-24 to 12-31-24
Executive Director of the Sanitary and Storm Water Management Districts	Daniel F. Vicari	01-01-22 to 01-12-22
	Charles Peller Jr.	01-13-22 to 10-01-23
	Rhonda Anderson	10-02-23 to 04-14-24
	Brenda Scott-Henry (interim)	04-15-24 to 12-31-24
President of the Board of Sanitary and Storm Water Commissioners	Maurice Mabon	01-01-22 to 01-21-22
	Daniel F. Vicari	01-22-22 to 12-31-23
	William Allen	01-01-24 to 12-31-24



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 the audit report of the City of Gary (City), for the period from January 1, 2022 to December 31, 2022. 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 21, 2024

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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 five prior reports, including the three most recent Reports B56040, B59829, and 000000794S.

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 and communicate and monitor the quality of the system of internal controls.

Cash and Investments (Bank Reconciliations) - City

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 November 2023, the City had not reconciled a majority of the bank accounts as of December 31, 2022. As such, the City was provided additional time to prepare the required monthly reconcilements. Reconcilements as of December 31, 2022, were completed as of January 2024. Additional audit procedures were performed to test the December 31, 2022 reconcilements provided.

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

- Receipt transactions that were either doubled or not timely posted or reported were included in the reconciling items. This resulted in receipts being overstated in the American Rescue Plan fund by \$839,277 and understated in the WCI/UCI Benefit and Withholdings funds by \$2,921,875. The ledger and financial statement were adjusted for these items.
- Disbursement transactions that were either doubled or not timely posted or reported were included in the reconciling items. This resulted in disbursements being overstated in the US Steel Area fund by \$2,922,728 and understated in the American Rescue Plan and Withholdings funds by \$1,251,384. The ledger and financial statement were adjusted for these items.
- Outstanding check detailed listings generated from the software system were determined unreliable for the operating bank accounts. The listings included electronic fund transfers (EFTs) and checks that had cleared the bank. Additional audit procedures were performed to determine the accuracy of the listings.

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

A combined bank reconciliation of all bank accounts, including the Sanitary District, identified a net variance of \$610,735 as of December 31, 2022, when compared to the adjusted ledger and financial statement. The net variance included a \$679,721 undocumented reconciling item. The ledger and financial statement were 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 and local distributions to ensure they were recorded timely. Various local distributions totaling \$69,035 and various state distributions totaling \$84,086 received in 2022 were not recorded in the ledger or reported in the financial statement. Distributions received from the State of Indiana from 2018 to 2022, totaling \$997,302, had not been posted by the end of 2022; of these distributions, \$908,605 remained unposted as of April 2024. 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 2022 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. Disbursements for payroll withholdings for health insurance benefits for 2022, totaling \$4,327,641, were posted in December 2022 and not monthly at the time of transaction.

Additionally, the 2020 overstatement of disbursements totaling \$1,186,883 that were to be voided, remained on the December 31, 2022 reconcilements as reconciling items. As of April 2024, 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. 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.

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

Financial Reporting

The City prepared and submitted the financial information into the Indiana Gateway for Government Units financial reporting system, 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 the Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis presented as Other Information in the Financial Statement Audit Report of the City:

- Receipt reconciling items, as noted under *Cash and Investments (Bank Reconciliations) - City*, were noted for the WCI/UCI Benefit, the American Rescue Plan, and the Withholdings funds, which resulted in receipts being understated by \$2,082,597.
- Disbursement reconciling items, as noted under *Cash and Investments (Bank Reconciliations) - City*, were noted for the US Steel Area, the American Rescue Plan, and the Withholdings funds, which resulted in disbursements being overstated by \$1,671,344.
- The Withholdings fund receipts and disbursements were overstated by \$11,194,125 and \$11,194,626, respectively. The overstatements were due to the City converting from a three-digit fund number to a four-digit fund number as required.
- Accounts receivable balancing entries, which were the net of the monthly amounts billed, penalties assessed, any adjustments, and payments made by customers, were incorrectly reported as receipts and disbursements in the GSD Wwtp General Operating fund. This resulted in the GSD Wwtp General Operating fund receipts and disbursements to be overstated by \$29,557,095 each.
- The City reported an amount that was posted in 2022 and applied to the 2021 financial statement. This resulted in the GSD Equipment Replacement fund receipts to be overstated by \$971,860.

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."

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](#)."

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

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."

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:

"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."

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

"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. . . ."

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.

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)

INTERNAL CONTROLS

Condition and Context

Internal control deficiencies resulted in the noncompliance over:

- Overdrawn Cash Balances
- Temporary Transfer of Funds
- Annual Financial Report
- Capital Assets
- Timely Recording
- Errors on Claims

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

- Subsequent Events - Timeliness of Reconciliations
- Compensation and Benefits
- Gateway Uploads
- Penalties and Interest
- Transfer Approval

These internal control deficiencies are further detailed in the comments below.

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. . . ."

OVERDRAWN CASH BALANCES

The same comment also appeared in 17 prior reports, including the 3 most recent Reports B56040, B59829, and 000000794S.

Condition and Context

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2022. 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, 2022, including the grant funds with no reimbursements received in January 2023, are listed below:

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

Fund	Amount Overdrawn
Motor Vehicle Highway	\$ 17,598
Law Enforcement Continuing Ed	4,777
J-Pit/Landfill Management	13,247
Fair Housing	3,753
WCI/UCI Benefit	1,219,480
Tobacco	83,445
Infant Mortality	3,203
Equal Opportunity Commission Hr	44,958
Marquette Park	159,890
Landfill Closure	99,790
Health And Human Services	263,172
Park Nonreverting/Athletics	109,582
Bioterrorism	26,551
Fair Housing Project	49,141
Social Services	303
Lake Michigan Coastal	31,713
Gsd Equipment Replacement	908,943

The Health and Human Services fund has remained overdrawn for at least 16 years.

The General fund reported a positive cash and investments balance as of December 31, 2022. However, the General fund's cash balance contained outstanding temporary loans owed to other funds of \$10,727,927. Without these temporary loans, the cash balance of the General fund would have been overdrawn by \$980,111.

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 17 prior reports, including the 3 most recent Reports B56040, B59829, and 000000794S.

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 Ordinance No. 9632 in 2023 to roll over the loans outstanding; however, the City is only allowed to extend the repayment for six months if an emergency exists.

Ordinance No. 9632 enabling the rollover of the loans was not approved until July 6, 2023, after year end when the temporary transfers had already been rolled over.

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

The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2022:

Loan To	Loan From	Loans Outstanding January 1, 2022	Loans Made	Loans Repaid	Loans Outstanding December 31, 2022
General	Other City Funds (Excluding GSD Funds)	\$ 7,070,800	\$ -	\$ -	\$ 7,070,800
Other City Funds (Excluding GSD Funds)	General	-	3,000,000	3,000,000	-
General	GSD Funds	4,257,127	-	600,000	3,657,127
Other City Funds (Excluding GSD Funds)	Other City Funds (Excluding GSD Funds)	3,613,126	-	1,000,000	2,613,126
	Totals	<u>\$ 14,941,053</u>	<u>\$3,000,000</u>	<u>\$4,600,000</u>	<u>\$ 13,341,053</u>

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	GSD Equipment Replacement	\$ 3,657,127	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
Rdvp Aux Non-Reverting	Consolidated Area Tif District	1,000,000	2020
Blight Elimination	Lakefront Tif District	735,000	2020
	Total	<u>\$13,341,053</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 \$3,657,127, 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. Furthermore, the \$600,000 payment owed per the Summary of Schedule of Deadlines, was wired from a City to a Sanitary District bank account; however, the payment was not timely posted as noted in the comment, *TIMELY RECORDING*, below.

Additionally, temporary transfers totaling \$3,000,000 from the General fund to the Fire Pension and the Police Pension funds were recorded on March 30, 2022. These temporary loans were not approved by the Common Council until April 19, 2022.

Criteria

Indiana Code 36-1-8-4 states in part:

"(a) . . .

- (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

The same comment also appeared in prior Report 000000794S.

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 (Gateway) financial reporting system. The following errors were included in the information submitted to Gateway:

Grants

- Several grants had individually immaterial errors that resulted in misstatements of expenditures of \$2,757,470, in total.
- Other errors included amounts passed through to subrecipients and identifying numbers.

Audit adjustments were proposed, accepted by the City, and made to the AFR grant schedule, which is the source of 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 of the City.

Payables and Receivables

The City was unable to provide records to support the accounts payable and accounts receivable amounts reported in the AFR. The City approved the omission of the Schedule of Payables and Receivables from the Financial Statement Audit Report of the City.

Criteria

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](#)."

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

CAPITAL ASSETS

The same comment also appeared in prior Report 000000794S.

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 2022. 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

The same comment also appeared in prior Report 000000794S.

Condition and Context

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

- Per the City's Consent Decree - Summary of Schedule of Deadlines, a payment of \$600,000 was wired from the City to the Sanitary District. However, the City did not record the disbursement, and the Sanitary District did not record the receipt to report this activity. These errors have not been corrected as of July 2024.
- Bond payments totaling \$386,103 for the Wheel Tax Revenue Bond were not recorded. This payment had not been recorded as of December 2023.
- A squad car lease payment in the amount of \$203,903 was not recorded. This payment was recorded in January 2023.
- Per the Trust Indenture Agreement with the Bank of New York Mellon (BONY), the City's Gaming Distributions were to be intercepted by BONY for debt payments on the 2016 Special Tax Revenue Bonds. Remaining amounts after intercept were remitted to the City. Although the money was intercepted, the gross gaming amounts should be recorded in the City's financial system as receipts and the debt payments as disbursements to record the activity in the financial system of the City. Disbursements totaling \$124,690 were not recorded. This payment was recorded in January 2023. Additionally, remaining amounts after intercept totaling \$1,741,050 were remitted back to the City by BONY and were erroneously entered into the financial system as a receipt and a disbursement, which resulted in an overstatement of receipts and disbursements. The financial statement was not adjusted for this amount.

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

- The City did not record the lease payments made totaling \$93,871 for the vehicle maintenance building. This payment had not been recorded as of December 2023.
- There were sixteen distributions received from the State of Indiana that were either not posted or not posted timely.
 - Thirteen distributions tested were posted between 36 and 88 days after the day of deposit into the City's bank account.
 - Three distributions totaling \$84,086 were not posted until 2023.
- Distributions received from the State of Indiana from 2018 to 2022, totaling \$997,302, were not posted by December 31, 2022. Of these distributions, \$908,605 remain unposted as of April 2024.
- Of the ten Police Department receipts tested, nine were not recorded timely. The receipts were posted 7 to 70 days after the time of transaction.

Criteria

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.

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)

ERRORS ON CLAIMS

The same comment also appeared in four prior reports, including the three most recent Reports B56040, B59829, and 000000794S.

Condition and Context

The following errors were noted in the testing of disbursements:

- Disbursements for transfers of subsidies and corrections totaling \$13,501,392 were done via 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.

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

- Of the payments made to the City's health insurance provider, \$9,761,448 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

This same comment appeared in three prior Reports B56040, B59829, and 000000794S.

Condition and Context

The 2023 monthly and combined bank reconciliations were not completed until July 2024.

As of August 14, 2024, the City had not completed monthly bank reconciliations for several of the City's primary operating bank accounts for 2024.

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."

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

COMPENSATION AND BENEFITS

A similar comment also appeared in prior Report 000000794S.

Condition and Context

The following items were noted during the testing of compensation and benefits:

- Of the 13 payroll transactions tested, 2 were not supported due to the City incorrectly calculating the firefighter overtime wages. The deviations noted were for the pay periods ending March 27, 2022, and July 3, 2022. This time frame was covered in an audit conducted by the Department of Labor (DOL). The audit conducted by the DOL was over the City's payroll pertaining to firefighter and paramedic overtime wages. The audit covered the period of March 8, 2020 to October 29, 2022, and concluded that the City underpaid 172 firefighters/paramedics due to incorrectly calculating the overtime wages for the audit period covered.

Based on the audit conducted by the DOL, we tested two employees' payrolls from November 4, 2022 through December 30, 2022, which consisted of 10 additional transactions, to determine if the City had corrected the calculations after the audit period that was covered by the DOL audit. This testing identified that the City had not corrected the calculation issue for the overtime wages for these two employees, which resulted in 9 additional deviations of noncompliance.

- For employees not in public safety positions, the City Personnel Manual states, "Personnel employed in executive, administrative, professional or managerial capacities are exempt from the provisions of the Fair Labor Standards Act and are not required to fill out time records, or time cards, and are not eligible to receive overtime compensation. Some supervisors and other designated exempt employees, as defined by the Fair Labor Standards Act (FLSA), may be eligible for compensatory time-off for any hours worked in excess of forty-five hours per work week . . ."

The City did not maintain documentation stating which employees were designated exempt, and, therefore, we could not determine if employees were or were not entitled to overtime compensation or compensatory time-off.

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)

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

GATEWAY UPLOADS

The same comment also appeared in three prior Reports B56040, B59829, and 000000794S.

Condition and Context

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

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 the Amended State Examiner Directive 2018-1 (Directive) for 2022. The annual funds ledger was not uploaded on the Indiana Gateway for Government Units financial reporting system as required. Monthly uploads were completed but were not 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

Beginning with July 2018 files, which will be due September 15, 2018, **all** cities, towns, townships, libraries, and special districts will use the Upload App to upload files containing financial and governmental unit information on Gateway to allow the State Board of Accounts (SBOA) to conduct audit planning and audit processes prior to on-site work at a unit. (State Examiner Directive 2018-1)

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. (Amended State Examiner Directive 2018-1, Updated November 9, 2020, and effective with uploads due February 15, 2021)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

PENALTIES AND INTEREST

Condition and Context

The City paid monthly Indiana State Payroll Withholding taxes untimely for February and September 2020, as well as January and December 2021. This resulted in penalties and interest being assessed for the late payments. Penalties and interest paid to the Indiana Department of Revenue totaled \$85,932.

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

Criteria

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 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 unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

TRANSFER APPROVAL

Condition and Context

Transfers totaling \$3,383,492 were recorded without Common Council approval. Of these transfers, \$1,374,542 was due to the City making transfers to clear deficit fund balances from the General fund to various other active or dormant funds. Additionally, Ordinance 9504, approved by the Common Council, budgeted for \$4,017,900 of subsidy transfers from the Riverboat fund to the General fund. Transfers from the Riverboat fund to the General fund totaled \$6,026,850, resulting in transfers totaling \$2,008,950 not approved by the Common Council.

Criteria

Indiana Code 36-1-8-5 states in part:

"(a) This section applies to all funds raised by a general or special tax levy on all the taxable property of a political subdivision.

(b) Whenever the purposes of a tax levy have been fulfilled and an unused and unencumbered balance remains in the fund, the fiscal body of the political subdivision shall order the balance of that fund to be transferred as follows, unless a statute provides that it be transferred otherwise. . . .

(2) Funds of a municipality, to the general fund or rainy-day fund of the municipality. . . ."

Indiana Code 36-4-8-2 states in part:

"Money may be paid out of the city treasury only on warrant of the city fiscal officer. Unless a statute provides otherwise, the fiscal officer may draw a warrant against a fund of the city only if:

(1) an appropriation has been made for that purpose and the appropriation is not exhausted; . . ."

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)



EDDIE D. MELTON
Mayor

CITY OF GARY
Department of Finance
401 Broadway
Gary, Indiana 46402
Phone (219) 881-1346 – Fax (219) 882-2320

M. CELITA GREEN
City Controller
YVETTE WILLIAMS
Deputy Controller

FINANCIAL TRANSACTIONS AND REPORTING

Cash and Investment-Bank Reconciliation-City

The city has experienced a delay in completing its bank reconciliation timely and accurately over the past few years due to turnover in staff, departmental management, and COVID. It is now making extraordinary efforts to get back on schedule with its bank reconciliations and audits, and thereafter to become timely.

The City converted its payroll processing from its financial system to ADP in 2022.

Unfortunately, the integrated process was not completely compatible, which resulted in errors in payroll data being transferred partially manually, and untimely.

Outstanding Checks and Journal Entries:

Outstanding checks are currently being cleared daily or weekly, depending on the number of transactions for each bank. Journal entries (JE) are prepared using a JE form. If the Deputy Controller originates the entry, the Controller approves the entry, and the Deputy enters the entry. The process is reversed

if the Controller originates the entry.

Receipts-City

In 2024, the city has hired a Revenue Specialist and Finance Manager which will allow appropriate staffing to enter and oversee the revenue identification of electronic transactions.

Health Insurance Disbursements

The City converted its payroll processing from its financial system to ADP. Unfortunately, the integrated process was not completely compatible, which resulted in errors in payroll data being transferred partially manually, and untimely. Since cash is transferred at the time of payroll checks generation from operating bank accounts to the payroll account, and postings of payroll occurs after the transfers, if an error is located during the payroll data posting transfers, a correction must be made to the bank transfers. The City is in process of converting its payroll process back to the fully automated process in its financial system, which will eliminate the issue.

Financial Reporting

The city has developed a signature form for all staff or consultants involved in preparing data, entering data, reviewing data, or submitting data for the Annual Reporting Gateway.

Errors that relate to payroll should be resolved with the return to payroll processing being fully automated in the financial system. GSD will begin to record its accounts receivable entries monthly to incur and relieve receivables. The city is working to timely record bank reconciling items as it catches up on the reconciling of bank reconciliations. Timely posting will prevent the confusion involved when correcting entries on the AFR in a different year of an audit.

INTERNAL CONTROLS

OVERDRAWN CASH BALANCES

The city, in some cases, have experienced delay in receiving grant reimbursements that exceed a quarter. In other cases, matches to be made have not been consistently, especially during the early years of property tax caps. Additionally, staff training and closer oversight needed to be more prevalent to avoid over drawn balances. The city's intent is to make larger matches to grants that were not made in the past, to document request for grant reimbursements that we are not received timely from grantors, and to restrict payment for funds where expenditures will result in overdrawn balances.

TEMPORARY TRANSFERS OF FUNDS

The City Administration has developed a plan that will repay all the outstanding loans within the next 3 years, with the largest loan being repaid in 5 years based on estimated cash balances over the next 5 years.

ANNUAL FINANCIAL REPORT(AFR)-Schedule of Expenditures of Federal Awards

Grants

The City has hired financial consultant services to train the Grant Administrator in properly identifying all revenues that need to be recorded, and properly identifying other required data needing to be entered in the SEFA.

Fixed Assets

The City has hired financial consultant services to complete a full fixed inventory count and assessment to begin complying again with the AFR requirements.

Accounts Payables and Receivables

The city used a different method from the auditors to calculate end of year Payables, but will use methods going forward that are similar to the auditors to report accounts payables, and GSD has changed its method of recording and reporting its receivables.

Capital Assets

The City has hired financial consultant services to complete a full fixed inventory count and assessment to begin complying again with the AFR requirements. The results will be entered in the financial system and updated accordingly.

Timely Recording

As required by the GSD consent decree, the City will pay the balance of the outstanding loan to GSD in 2025.

More oversight will be given to the current process of recording all transfers timely, which includes: debt payments, bond payments, and lease payments.

A better process will be identified and implemented that will provide the Controller's office with the ability to identify funds that are deposited into its bank accounts with insufficient information to identify where the revenues should be posted, thereby delaying the posting process. Additionally, a process will be implemented that will communicate and hold accountable the responsibility of departmental management to address revenues unidentified by the Controller's office that delay the recording of deposits by the Controller's Office resulting in delayed posting.

Error Claims

All disbursement transfers will be prepared with claims, including health insurance transfers and other disbursements transfers, and will be submitted to the Board of Works for approval.

SUBSEQUENT EVENTS-TIMELINESS RECONCILIATION

The city has experienced a delay in completing its bank reconciliation timely and accurately over the past few years due to turnover in staff, turnover in departmental management, and COVID. It is now making extraordinary efforts to get back on schedule with its bank reconciliations and audits, and thereafter to become timely.

COMPENSATION AND BENEFITS

The department has been contacted regarding the discrepancies that still exist for some employees' calculations for public safety overtime and identified by DOL. It was found that the department does not have access to the calculations used by DOL doing their audit to oversee that the correct calculation is being used in the department. We are working with the department to obtain the calculation.

The Human Resources department is in the process of developing a list of which

Employees are eligible for overtime.

GATEWAY UPLOADS

The city will work with its consultants to develop a better system of uploading all documents into Gateway. Once the city is able to catch up on the timely completion of bank reconciliations, the bank reconciliations will be uploaded timelier.

PENALTIES AND INTERESTS

As of October 2021, the payroll processing company filed all payroll reports and is responsible for all penalties and interests. However, when payroll report and processing is converted back to the City's financial system all efforts will be made to not incur any penalties and interests.

TRANSFER APPROVAL

As of the date of this audit, the city will be sure to obtain Council approval for any transfers involving clearing deficit fund cash balances, as well as providing oversight to adhere to approved ordinances.

FINANCE DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on August 21, 2024, with M. Celita Green, City Controller; Yvette Williams, Deputy City Controller; Ellis Dumas III, Chief of Staff; Lori Latham, Common Council member; Linda D. Barnes-Caldwell, Common Council member; Loureather Allen, Internal Auditor; Karl Cender, Financial Advisor; and Eric Cender, Financial Advisor.

COMMON COUNCIL
CITY OF GARY

COMMON COUNCIL
CITY OF GARY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Condition and Context

Internal control deficiencies resulted in the noncompliance over:

- Overdrawn Cash Balances
- Temporary Transfer of Funds

These internal control deficiencies are further detailed in the comments below.

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. . . ."

OVERDRAWN CASH BALANCES

The same comment also appeared in 17 prior reports, including the 3 most recent Reports B56040, B59829, and 000000794S.

Condition and Context

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2022. 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, 2022, including the grant funds with no reimbursements received in January 2023, are listed below:

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

Fund	Amount Overdrawn
Motor Vehicle Highway	\$ 17,598
Law Enforcement Continuing Ed	4,777
J-Pit/Landfill Management	13,247
Fair Housing	3,753
WCI/UCI Benefit	1,219,480
Tobacco	83,445
Infant Mortality	3,203
Equal Opportunity Commission Hr	44,958
Marquette Park	159,890
Landfill Closure	99,790
Health And Human Services	263,172
Park Nonreverting/Athletics	109,582
Bioterrorism	26,551
Fair Housing Project	49,141
Social Services	303
Lake Michigan Coastal	31,713
Gsd Equipment Replacement	908,943

The Health and Human Services fund has remained overdrawn for at least 16 years.

The General fund reported a positive cash and investments balance as of December 31, 2022. However, the General fund's cash balance contained outstanding temporary loans owed to other funds of \$10,727,927. Without these temporary loans, the cash balance of the General fund would have been overdrawn by \$980,111.

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 17 prior reports, including the 3 most recent Reports B56040, B59829, and 000000794S.

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 Ordinance No. 9632 in 2023 to roll over the loans outstanding; however, the City is only allowed to extend the repayment for six months if an emergency exists.

Ordinance No. 9632 enabling the rollover of the loans was not approved until July 6, 2023, after year end when the temporary transfers had already been rolled over.

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

The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2022:

Loan To	Loan From	Loans Outstanding January 1, 2022	Loans Made	Loans Repaid	Loans Outstanding December 31, 2022
General	Other City Funds (Excluding GSD Funds)	\$ 7,070,800	\$ -	\$ -	\$ 7,070,800
Other City Funds (Excluding GSD Funds)	General	-	3,000,000	3,000,000	-
General	GSD Funds	4,257,127	-	600,000	3,657,127
Other City Funds (Excluding GSD Funds)	Other City Funds (Excluding GSD Funds)	3,613,126	-	1,000,000	2,613,126
	Totals	<u>\$ 14,941,053</u>	<u>\$3,000,000</u>	<u>\$4,600,000</u>	<u>\$ 13,341,053</u>

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	GSD Equipment Replacement	\$ 3,657,127	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
Rdvp Aux Non-Reverting	Consolidated Area Tif District	1,000,000	2020
Blight Elimination	Lakefront Tif District	735,000	2020
Total		<u>\$13,341,053</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 \$3,657,127, 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.

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

Additionally, temporary transfers totaling \$3,000,000 from the General fund to the Fire Pension and the Police Pension funds were recorded on March 30, 2022. These temporary loans were not approved by the Common Council until April 19, 2022.

Criteria

Indiana Code 36-1-8-4 states in part:

"(a) . . .

(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)

COMMON COUNCIL
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on August 21, 2024, with M. Celita Green, City Controller; Yvette Williams, Deputy City Controller; Ellis Dumas III, Chief of Staff; Lori Latham, Common Council member; Linda D. Barnes-Caldwell, Common Council member; Loureather Allen, Internal Auditor; Karl Cender, Financial Advisor; and Eric Cender, Financial Advisor.

BOARD OF PUBLIC WORKS AND SAFETY
CITY OF GARY

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

INTERNAL CONTROLS

Condition and Context

Internal control deficiencies resulted in the noncompliance over:

- Public Purchases - Police Vehicles
- Disclosure of Related-Party Transaction

These internal control deficiencies are further detailed in the comments below.

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. . . ."

PUBLIC PURCHASES - POLICE VEHICLES

The same comment also appeared in prior Reports B59829 and 000000794S.

Condition and Context

The Board of Public Works and Safety approved a contract for the purchase of police vehicles totaling \$394,823 on July 12, 2023. 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."

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

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](#)."

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."

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

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

The same comment also appeared in prior Report 000000794S.

Condition and Context

The City contracted with Darnail Lyles for advisory services to the Mayor for \$55,000 in 2022 and \$60,000 in 2023. 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."

Darnail Lyles is also an appointed member of the Sanitary District Board of Commissioners and the the Stormwater Management District Board of Commissioners and was paid \$11,940 in 2022 and \$11,952 in 2023 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 in 2022 and 2023. 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:

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

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

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 21, 2024, with M. Celita Green, City Controller; Yvette Williams, Deputy City Controller; Nate George, Director of Public Works; Michael L. Suggs, President of the Board of Public Works and Safety; Carla Morgan, Secretary of the Board of Public Works and Safety; Loureather Allen, Internal Auditor; Ellis Dumas III, Chief of Staff; Lori Latham, Common Council member; Linda D. Barnes-Caldwell, Common Council member; Karl Cender, Financial Advisor; and Eric Cender, Financial Advisor.

SANITARY DISTRICT
CITY OF GARY

SANITARY DISTRICT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS

The same comment also appeared in two prior Reports B59829 and 000000794S.

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 control procedures, such as approvals, were not available for audit.

Cash and Investments (Bank Reconciliations) - Sanitary District

The Sanitary District had designed a review process over the bank reconciliations; however, the process was not consistently documented throughout the audit period.

The process as designed was that a consultant prepared the reconciliation and Sanitary District officials reviewed the reconciliation, documented by a signature, then uploaded the reconciliation to the Indiana Gateway for Government Units (Gateway) financial reporting system by the 15th of the second following month to comply with the Gateway deadlines. However, for the three months tested, the bank reconciliations did not have documentation of a review process nor were uploads completed timely.

Additionally, the Sanitary District's 2022 bank reconciliations contained unidentified outstanding reconciling items and adjustments totaling \$13,766, unidentified outstanding checks totaling \$241,469, and unidentified deposits in transit totaling \$69,407 for which the Sanitary District could not provide supporting documentation to verify the validity and accuracy of the items. The ledger and financial statement were not adjusted for these variances.

Receipts

The Sanitary District had designed a review process 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

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."

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."

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."

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

"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. . . ."

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.

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)

INTERNAL CONTROLS

Condition and Context

Internal control deficiencies resulted in the noncompliance over:

- Delinquent Wastewater Accounts
- Temporary Transfer of Funds
- Capital Assets
- Accounts Receivable Transactions
- Timely Recording

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

- Gateway Uploads
- Subsequent Events - Utility Receipt Transactions

These internal control deficiencies are further detailed in the comments below.

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. . . ."

DELINQUENT WASTEWATER ACCOUNTS

The same comment also appeared in nine prior Reports, including the three most recent Reports B56040, B59829, and 000000794S.

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
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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 \$19,584,790 accounts receivable balance at December 31, 2022, included no aging history to be evaluated. Historically, approximately \$6.6 million was outstanding 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 17 prior reports, including the 3 most recent Reports B56040, B59829, and 000000794S.

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 \$3,657,127, 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) . . .

- (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."

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

CAPITAL ASSETS

The same comment also appeared in prior Report 000000794S.

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 Government Units financial reporting system. We were unable to verify that additions for assets purchased or deletions for assets disposed were properly recorded for 2022. 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)

ACCOUNTS RECEIVABLE TRANSACTIONS

Condition and Context

The City maintained a double entry financial system for the Sanitary District which included an accounts receivable account to track customer billing activity and balances. As customers are billed monthly, accounts receivable and revenue account balances should increase. At the time customer payment is received, the cash account balance should increase, and the accounts receivable account balance should decrease. However, the Sanitary District did not post this activity at the time of transaction in the manner explained above.

The Sanitary District posted year-end entries to balance the accounts receivable in the financial system. The Sanitary District did not record the billing and payment activity at the time of transaction which should have maintained an accurate accounts receivable balance in the financial system throughout the year. The net difference between billings and collections of \$29,557,095 was recorded at the end of the year.

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)

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

TIMELY RECORDING

Condition and Context

The Sanitary District made monthly bond and interest and equipment replacement transfers from the Gsd Wwtp General Operating fund to the Gsd Bond and Interest and Gsd Equipment Replacement funds throughout the year totaling \$3,656,460. Disbursements were posted monthly; however, the receipt side of the transfers totaling \$3,493,532 were not posted until December 31, 2022. The \$162,929 December transfer from the Gsd Wwtp General Operating fund has not been receipted to the Gsd Bond and Interest fund as of May 2024.

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)

GATEWAY UPLOADS

Condition and Context

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

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 Sanitary District did not upload monthly Sanitary District Board or Stormwater Management District Board minutes or an annual salary ordinance. All other Sanitary District monthly uploads were completed but not completed timely, that is, no later than the 15th day of the second succeeding month as required by the State Examiner Directive.

Criteria

Beginning with July 2018 files, which will be due September 15, 2018, **all** cities, towns, townships, libraries, and special districts will use the Upload App to upload files containing financial and governmental unit information on Gateway to allow the State Board of Accounts (SBOA) to conduct audit planning and audit processes prior to on-site work at a unit. (State Examiner Directive 2018-1)

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. (Amended State Examiner Directive 2018-1, Updated November 9, 2020, and effective with uploads due February 15, 2021)

Units are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, court decisions and filing requirements concerning reports and other procedural matters of federal and state agencies. Units must file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

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

SUBSEQUENT EVENTS - UTILITY RECEIPT TRANSACTIONS

The same comment also appeared in prior Report 000000794S.

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 July 22, 2024, receipts totaling \$33,902,668 were posted to the Gsd Wwtp General Operating fund, and receipts totaling \$2,881,351 were posted to the GSWMD fund, which were back dated throughout 2023.

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)



September 10, 2024

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

Re: Responses to City of Gary – Gary Sanitary District Audit Comments
Views of Responsible Official: The Gary Sanitary District concurs with the findings.

Corrective Action Plans were timely submitted under IC 5-11-5-1.5 and are repeated below where noted, along with additional comments in response to various audit findings.

FINANCIAL TRANSACTIONS

Description of Corrective Action Plan:

Internal Controls – Segregation of Duties - The Gary Sanitary District has setup processes to ensure appropriate segregation of duties such as separating incompatible duties related to cash and investments, receipts, and disbursements. Compensating controls have been implemented where necessary, for example, an additional layer of review on bank reconciliations.

Cash and Investment (Bank Reconciliation) - The Gary Sanitary District (GSD) recognizes that the designed processes and procedures for review and oversight of the monthly bank reconciliations are sufficient in scope and design. GSD will ensure that these processes are followed each month, including sufficient evidence of review process, and timely completion by the 15th of the second following month. Lastly, GSD intends for the bank reconciliation process to result in timely posting of outstanding adjustments, and include identification of all outstanding checks and deposits in transit.

Following the Sanitary District first receiving this comment in the 2020 Audit Report on August 30, 2022, the District began attempting a more consistent documentation of the bank reconciliation review process effective for September 2022 Bank reconciliations, which were reviewed, signed, and uploaded to Gateway on October 11, 2022. However, there were some challenges with timely completion of some of the bank reconciliations due to outstanding transactions such as payroll, due to issues with importing ADP payroll data into the ledger, a process that was outside of the control of the Sanitary District. Throughout 2022, payroll transactions were not posted in time to meet the Sanitary District’s Bank Reconciliation deadline of the 15th of the second following month. However, as the payroll process was improved starting in 2023, and the Sanitary District was able to consistently document and timely review all Bank Reconciliations starting in September 2023, to be uploaded to Gateway with evidence of review by the 15th of the second following month. As of the date of this response, all 2024 bank reconciliations through July have been signed and uploaded to Gateway, well in advance of the September 15, 2024 due date.



Additional Comments – Financial Transactions: The unidentified outstanding checks of \$241,469 and unidentified adjustments of \$13,766 referenced in the audit report have now been identified and reconciled in GSD’s records. The unidentified deposits in transit of \$69,407 referenced in the report was previously reconciled, but detail was lost in the ransomware attack that infected the District’s file-sharing server in February of 2023. Going forward, GSD will maintain records of all adjustments, outstanding checks, and deposits in transit, and attach relevant listings to the monthly bank reconciliations.

Receipts - GSD recognizes that receipts posted are to be reviewed for accuracy, completeness, timeliness, and classification as part of the monthly bank reconciliation process. GSD notes that proper execution of designed bank reconciliation processes (as discussed above), including documentation of the review process, is sufficient for reviewing receipts posted for these attributes.

Disbursements - The audit report notes that documentation of the review process was not available. GSD notes for purposes of clarification that the reason that this particular documentation was not available was directly due to the loss of this data in the ransomware attack that infected the District’s file-sharing server in February of 2023.

INTERNAL CONTROLS

The Sanitary District acknowledges the connection noted in the audit report between all the subsequent audit findings (i.e. Delinquent Wastewater, Timely Recording, etc.) and the District’s internal control deficiencies. GSD intends to review existing internal control processes against the *Uniform Internal Control Standards for Indiana Political Subdivisions*, as well as implement and internal audit to evaluate compliance with internal control standards. More specific responses to the internal control matters pertaining to subsequent comments are noted in the following sections.

DELINQUENT WASTEWATER ACCOUNTS

Description of Corrective Action Plan:

Delinquent wastewater fees and penalties – GSD will investigate a process of certifying fees and penalties with the County Auditor. The District will review available records to establish an ongoing process of certifying fees and penalties with the County Auditor by end of the fiscal year (December 2024).

Responsibility to collect amounts owed – In 2024, GSD re-opened the 504 Broadway Customer Service center. It is the District’s strategic intention to improve customer relations as well as providing additional options for payments via the re-opening of this location. GSD is also currently reviewing other means of improving collections on wastewater charges such as bill redesign, customer online portals, etc. With respect to growing past due balances, the Sanitary District acknowledges the urgent need to file sewer liens on eligible property as a means of collecting past due accounts. The District intends to send “intent to lien” letters to eligible customers in the next 1-2 months. Then, pending customer responses to those letters, GSD intends to file sewer liens with Lake County by December 2024.



New billing system summary account, and aging of each account not retained – The Sanitary District acknowledges that the special account referenced in the audit report was created as a cost-saving measure due to the large amount of data that would have been imported into the new billing system. The Sanitary District does have access to the detail of this account, it is simply separate from the main system accounts receivable aging data. In response to this repeat comment, GSD intends to review these balances, including looking into methods of collection (final demand letters, hiring a collection agency, etc.), especially prior to consideration of any potential accounting write-offs. Lastly, GSD will explore what software remediations are available to improve reporting and address the comment. These reviews and discussions will identify an actionable plan and implementation schedule. This action plan will be finalized in the coming months, with documentation of the plan and status ready to show SBOA within 6 months.

TEMPORARY TRANSFERS OF FUNDS

Description of Corrective Action Plan:

In 2018, GSD entered into a Consent Decree with the Department of Justice that provided the repayment terms of the outstanding loan between the City of Gary and GSD. An updated payment schedule was effective during 2021. The City anticipates making payments on or before the 31st of the year according to the schedule, unless any more deferments are approved by the EPA. Currently, the final payment is expected no later than January 2025, which will resolve the loan balance in full.

CAPITAL ASSETS

Description of Corrective Action Plan:

In 2024, the City Finance Controller contracted with a firm to conduct an asset inventory of all City capital assets, including GSD assets. The final report is expected to be issued in 2024, which will allow the Sanitary District and Storm Water Management District to update its records in a manner that allows for verification of balances, as well as additions and disposals in 2024.

In addition, GSD will review its internal control policies regarding capital assets to ensure that records are being updating as appropriate. This includes an internal inventory process to be completed once every 2 years, as well as reviewing capital asset accounting policies and adopting an updated policy if necessary.

ACCOUNTS RECEIVABLE TRANSACTIONS

Double entry financial system, and year-end entries – The District acknowledges that the Accounts Receivable (A/R) ledger account in RDS was not updated until year-end in 2022. The District was nevertheless able to review A/R balances via the subsidiary ledger within UMBS billing system. As of April 2024, GSD accounting has implemented a new process designed to update the A/R ledger in RDS on a monthly basis. This new process also ensures that adjustments to A/R will not overstate the receipts reported on the AFR, or any other financial report, which mistakenly occurred in 2022. As such, this issue is resolved as of April 2024.



TIMELY RECORDING

Interfund transfers – The District acknowledges that while interfund transfers were recorded as disbursements to the operating fund monthly as appropriate, the corresponding receipts to the bond and interest fund and equipment replacement fund were not posted until the end of the year in 2022. The GSD Finance department is collaborating with the City Controller’s office to revisit the current process and train staff on RDS functionality to ensure both sides of the transfer are recorded timely. This issue is expected to be resolved as of September 2024.

GATEWAY UPLOADS

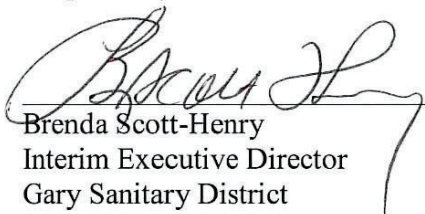
Monthly and Annual Uploads – GSD understands the requirement to upload bank reconciliations, approved board minutes, and funds ledgers to Gateway on a monthly basis, as well as salary resolutions and other annual documents at year-end. In 2022, GSD did upload documents, but not always consistently and by the 15th of the second succeeding month as required by the State Examiner Directive. Also, due to the timing of the audits, much of the annual information was provided to the SBOA via different means (i.e. electronic mail, Microsoft OneDrive share folder). GSD believes that all required information for the 2023 year has been uploaded to Gateway or otherwise provided to SBOA. For the 2024 year to date, all monthly uploads for bank reconciliations, approved board minutes, and funds ledgers have been uploaded to Gateway through July.

SUBSEQUENT EVENTS – UTILITY RECEIPT TRANSACTIONS

Description of Corrective Action Plan:

2023 Collection activity receipts – The District acknowledges that this comment originally appeared on the 2021 audit report, which was issued on September 19, 2023. Since the comment relates to activity that was done in 2023 through July, before the report release date, there was not any way for GSD to remediate the comment for purposes of the 2022 audit. However, GSD did post the entries as appropriate, even though this required back dating of the transactions as noted in the audit report. For August 2023 receipts, and all subsequent months, including the 2024 year, GSD has been able to post all collection activity timely, as such this issue has been resolved.

Respectfully submitted,


Brenda Scott-Henry
Interim Executive Director
Gary Sanitary District

REC

SANITARY DISTRICT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on August 21, 2024, with M. Celita Green, City Controller; Yvette Williams, Deputy City Controller; Jerome Foster, Sanitary District Finance Manager; Brenda Scott-Henry, Interim Executive Director of the Sanitary and Storm Water Management Districts; William Allen, President of the Board of Sanitary and Storm Water Commissioners; Ola V. Morris, Vice President of the Board of Sanitary and Storm Water Commissioners; William Cook, Board of Sanitary and Storm Water Commissioners member; Maurice Mabon, Secretary of the Board of Sanitary and Storm Water Commissioners; Loureather Allen, Internal Auditor; Carla Morgan, Corporation Counsel; Eric Cender, Financial Advisor; Ellis Dumas III, Chief of Staff; Lori Latham, Common Council member; Linda D. Barnes-Caldwell, Common Council member; and Karl Cender, Financial Advisor.

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REDEVELOPMENT COMMISSION
CITY OF GARY

REDEVELOPMENT COMMISSION
CITY OF GARY
AUDIT RESULT AND COMMENT

TAX INCREMENT FINANCING (TIF) ALLOCATION FUND USES

Condition and Context

There were deficiencies in the internal control system of the City related to ensuring Tax Increment Financing (TIF) Allocation funds were expensed within the restricted uses authorized by Indiana Code.

A Redevelopment Commission has the duties set forth in Indiana Code 36-7-14-11, which provides for the investigation, selection, acquisition, development, and disposal of property in "areas needing redevelopment." The powers granted to a Redevelopment Commission in Indiana Code 36-7-14-12.2 allow the commission to develop property in the areas needing redevelopment and to carry out other activities "for redevelopment purposes." "Redevelopment" includes activities contained in Indiana Code 36-7-1-18.

The City has 11 Tax Incremental Financing (TIF) allocation areas. The expenses noted below from TIF allocation funds were not within the allocation areas or for the restricted uses authorized in Indiana Code 36-7-14-36(b)(3) (West 2022):

- The E. Lakefront TIF allocation funds were expensed for landscaping services totaling \$3,500.
- The Midwest Center TIF District allocation funds were expensed for consulting and engineering services totaling \$15,949.
- The Lakefront TIF District allocation funds were expensed for consulting, landscaping, security, and accounting services totaling \$25,395, as well as a contracted planning director for \$7,000.
- The Consolidated Area TIF District allocation funds were expensed for consulting, legal, security, and accounting services totaling \$22,281.

Additionally, the E. Lakefront TIF allocation funds were expensed for consulting services totaling \$13,123 that fall within the restricted uses authorized by Indiana Code 36-7-14-36(b)(3); however, the expense was determined to not occur within the E. Lakefront TIF allocation area.

Criteria

Indiana Code 36-7-14-39(b)(3) states in part:

". . . property tax proceeds . . . shall be allocated to the redevelopment district and, when collected, paid into an allocation fund for that allocation area that may be used by the redevelopment district only to do one (1) or more of the following:

- (A) Pay the principal of and interest on any obligations payable solely from allocated tax proceeds which are incurred by the redevelopment district for the purpose of financing or refinancing the redevelopment of that allocation area.
- (B) Establish, augment, or restore the debt service reserve for bonds payable solely or in part from allocated tax proceeds in that allocation area.
- (C) Pay the principal of and interest on bonds payable from allocated tax proceeds in that allocation area and from the special tax levied under section 27 of this chapter.

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(D) Pay the principal of and interest on bonds issued by the unit to pay for local public improvements that are physically located in or physically connected to that allocation area.

(E) Pay premiums on the redemption before maturity of bonds payable solely or in part from allocated tax proceeds in that allocation area.

(F) Make payments on leases payable from allocated tax proceeds in that allocation area under section 25.2 of this chapter.

(G) Reimburse the unit for expenditures made by it for local public improvements (which include buildings, parking facilities, and other items described in section 25.1(a) of this chapter) that are physically located in or physically connected to that allocation area.

(H) Reimburse the unit for rentals paid by it for a building or parking facility that is physically located in or physically connected to that allocation area under any lease entered into under [IC 36-1-10](#).

(I) For property taxes first due and payable before January 1, 2009, pay all or a part of a property tax replacement credit to taxpayers in an allocation area as determined by the redevelopment commission . . .

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

(K) Reimburse public and private entities for expenses incurred in training employees of industrial facilities that are located:

(i) in the allocation area; and

(ii) on a parcel of real property that has been classified as industrial property under the rules of the department of local government finance . . .

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

(M) Expend money and provide financial assistance as authorized in section 12.2(a)(27) of this chapter.

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

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:

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"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. . . ."

The uses of TIF funds are restricted to those set forth in the Indiana Code. The power of a redevelopment commission to expend such funds is limited to the express statutory powers as set forth in Indiana Code 36-7-14. The use of TIF funds for ongoing maintenance of redeveloped property is not an expressly or impliedly permitted use, except as provided in Indiana Code 36-7-1-18(7) for repairing and maintaining buildings acquired before redevelopment is complete. (Redevelopment Commission of the Town of Munster, Indiana, v. Indiana State Board of Accounts and Paul D. Joyce, State Examiner of State Board of Accounts, 28 N.E.3d 272 (Ind. App., 2015) trans. denied, 34 N.E.3d 251)

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The contents of this report were discussed on August 21, 2024, with M. Celita Green, City Controller; Yvette Williams, Deputy City Controller; Chris Harris, Executive Director of the Department of Redevelopment; Sharon Chambers, Redevelopment Commission member; Loureather Allen, Internal Auditor; Ellis Dumas III, Chief of Staff; Lori Latham, Common Council member; Linda D. Barnes-Caldwell, Common Council member; Karl Cender, Financial Advisor; and Eric Cender, Financial Advisor.