

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF HOBART

LAKE COUNTY, INDIANA

January 1, 2023 to December 31, 2023



FILED

09/17/2024

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Deborah Longer	01-01-23 to 12-31-24
Mayor	Brian Snedecor Josh Huddlestun	01-01-23 to 12-31-23 01-01-24 to 12-31-24
President of the Board of Public Works and Safety	Brian Snedecor Josh Huddlestun	01-01-23 to 12-31-23 01-01-24 to 12-31-24
President Pro Tempore of the Common Council	Matthew Claussen	01-01-23 to 12-31-24



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

This report is supplemental to the audit report of the City of Hobart (City), for the period from January 1, 2023 to December 31, 2023. 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 27, 2024

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CLERK-TREASURER
CITY OF HOBART

CLERK-TREASURER
CITY OF HOBART
AUDIT RESULT AND COMMENT

OVERDRAWN CASH BALANCES

The same comment appeared in six prior reports, including the three most recent Reports B57261, B59485, and B61367.

Condition and Context

Internal controls were not in place to ensure fund cash balances were not reduced below zero. The financial statement presented included the Motor Vehicle Highway and the Riverboat Casino funds with overdrawn cash balances of \$263,562 and \$29,117, respectively, as of December 31, 2023.

Those funds with overdrawn cash balances due to the timing of reimbursements for expenditures were not included in this comment.

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. . . ."

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)



"The Friendly City"

The City of Hobart

414 Main Street · Hobart, Indiana 46342

Deborah A. Longer
Clerk-Treasurer

OFFICIAL RESPONSE

August 29, 2024

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

Submitted via email: officialresponse@sboa.in.gov

RE: Civil City of Hobart, Lake County Indiana 2023 Audit Results and Comments

Overdrawn Cash Balances

The audit report lists the Motor Vehicle Highway Fund and the Riverboat Casino Fund with overdrawn cash balances as of December 31, 2023. In the case of the Riverboat Casino Fund, this is a result of reimbursable expenditures that were not received by the end of December 2023 and issues with the submission of a request for reimbursement of the funds in 2024. We continue to work on getting the reimbursement processed which will offset this overdrawn cash balance. In the case of the Motor Vehicle Highway Fund, the levy collection shortfall with tax distributions coming in at just over 47% of the total anticipated was not realized until late December when distributions were received from Lake County, coupled with the previous shortfalls that are not able to be recovered from past years. The City continues to adjust and consider new options of revenue due to the impact the Property Tax Caps has on the tax collections and the Southlake Mall refund settlement agreement imposed by Lake County with an anticipated shortfall continuing over the next 3-5 years.

The City of Hobart utilizes inter-fund borrowing as needed to meet the obligations for all funds. At the end of the fiscal year, the inter-fund borrowing is paid back to the appropriate funds as required which results in the possibility that certain funds will end the year with a negative cash balance, showing a true picture of funds not received. Additionally, the City uses a "pooled cash" approach so that it will not overdraw individual funds while waiting for reimbursements or tax distributions. The overdrawn funds noted in the audit are neither an indicator of serious financial problems nor of any inappropriate diversion of funds. The Administration continues to address the shortfall by limiting spending and shifting some operational costs to other funds appropriate for this use and exploring other funding opportunities and cost-saving measures in the future.

RE: Sanitary District of the City of Hobart, Lake County Indiana 2023 Audit Results and Comments

Delinquent Wastewater Accounts

Since the Covid-19 pandemic and the Governor's declaration of emergency, delinquent wastewater accounts were not processed for liens from 2019 through early 2022. During that timeframe we have had a transition in staffing and liens were placed in the Spring of 2024 on those accounts who had not entered into a payment plan. In the interim, the utility billing software vendor did an update of the software and the manual placement of the Opt-Out of Lien Status was not overridden to include all delinquent accounts. This optional placement allows the Sanitary District some grace time for people who have agreed to a payment plan and are making payments. As a result of not turning off this option, 38 active accounts were delinquent, were not making payments and did not have liens placed. Once this deficiency was pointed out, the software vendor was notified of the problem and will adjust this in future updates. In addition, those who were not making payments and did not have liens placed in the spring of 2024 were issued a pre-lien letter within a week of the finding. The Utility Clerks and the Clerk-Treasurer have discussed a schedule of issuing liens in future months and will all review the Opt-Out of Lien reports prior to liens being issued to assure that timely payments of accounts are being made in accordance with the Sanitary District's practices, and with those not making payments per their agreement being liened. Additional internal controls will also be put into place to review all accounts monthly by the Clerk-Treasurer and multiple utility clerks to assure payment plans are being adhered.

Deborah A. Longer
Clerk-Treasurer
City of Hobart, Indiana

CLERK-TREASURER
CITY OF HOBART
EXIT CONFERENCE

The contents of this report were discussed on August 27, 2024, with Deborah Longer, Clerk-Treasurer; Josh Huddlestun, Mayor; Heather McCarthy, City Attorney; Dan Waldrop, Common Council member; Matthew Claussen, President Pro Tempore of the Common Council; Maria Galka, Board of Public Works and Safety member; Robert Fulton, President of the Sanitary and Stormwater District Board; Mark Kara, Common Council member; Kelly Clemens, Chief of Staff; Alex Metz, Secretary of the Sanitary and Stormwater District Board; and Larry Gutierrez, Sanitary and Stormwater District Board member.

SANITARY DISTRICT
CITY OF HOBART

SANITARY DISTRICT
CITY OF HOBART
AUDIT RESULT AND COMMENT

DELINQUENT WASTEWATER ACCOUNTS

Condition and Context

Internal controls were not in place at the Sanitary District to ensure that delinquent wastewater fees and penalties were certified to the Lake County Auditor. All delinquent wastewater fees and penalties were not certified to the Lake County Auditor. The Sanitary District did not fulfill its responsibility to collect amounts owed to the Sanitary District for wastewater charges.

The software used by the Utilities allows for any one of the three Utility Clerks to make adjustments and allow for accounts to be omitted from the lien certification reports.

A review of the Opt Out of Lien report indicated 507 of the 545 accounts on the report were final billed customers who no longer resided at the property upon which the lien would be applied. However, 38 were active customers, including one of the Utility Clerks, whose balance as of the date of the certified lien report was \$2,438, and another was the current Mayor's rental property whose balance as of the date of the certified lien report was \$2,054. The liens were certified by the Clerk-Treasurer to the Lake County Auditor on June 25, 2024. The Utility Clerk had not made a payment since November 28, 2022. No payments had been made on the current Mayor's property since April 27, 2022.

The Utility Clerk could not tell us who or for what reason active customers with delinquent account balances that met the guidelines for filing a lien were placed in the Opt Out of Lien Status. Internal controls have not been established to ensure the Opt Out of Lien Report is printed and provided to the Clerk-Treasurer for review prior to certification of the liens. Electronic or information technology controls have not been established to limit access and identify the Utility Clerk who places the customer's account on the Opt Out of Lien status. Documentation was not retained or required to be retained, supporting the reason for an active account to be placed in the Opt Out of Lien status.

Criteria

Indiana Code 13-26-14-4 states:

"Rates, fees, or charges made, assessed, or established by the district are a lien, in the same manner established under [IC 36-9-23](#) for municipal sewage works, on a lot, parcel of land, or building that is connected with or uses the works of the district. Liens under this chapter:

- (1) attach;
- (2) are recorded;
- (3) are subject to the same penalties, interest, and reasonable attorney's fees on recovery; and
- (4) shall be collected and enforced;

in substantially the same manner as provided in [IC 36-9-23-31](#) through [IC 36-9-23-34](#). A lien under this chapter that is the only lien on a property may not be foreclosed."

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

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

" . . . (b) An officer described in subsection (c) may defer enforcing the collection of unpaid fees and penalties assessed under this chapter until the unpaid fees and penalties have been due and unpaid for at least ninety (90) days. However, in the case of property that is occupied by someone other than the owner, this subsection does not relieve the utility of its duty under section 32(c) of this chapter to notify the owner not later than twenty (20) days after the time user fees become sixty (60) days delinquent.

(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 who shall charge a fee for recording the list or each individual instrument in accordance with the fee schedule established in [IC 36-2-7-10](#). The officer shall then mail to each property owner on the list or on an individual instrument a notice stating that a lien against the owner's property has been recorded. Except for a county having a consolidated city, a service charge of five dollars (\$5), which is in addition to the recording fee charged under this subsection and under subsection (g), shall be added to each delinquent fee that is recorded. . . .

(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. . . ."

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

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. . . ."

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)



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