

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

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF GARY

LAKE COUNTY, INDIANA

January 1, 2023 to December 31, 2023



FILED

05/13/2025

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Mileak Harper	01-01-23 to 02-28-23
	M. Celita Green	03-01-23 to 12-31-25
Mayor	Jerome Prince	01-01-23 to 12-31-23
	Eddie D. Melton	01-01-24 to 12-31-25
President of the Board of Public Works and Safety	Trent A. McCain	01-01-23 to 12-31-23
	Michael L. Suggs	01-01-24 to 12-31-25
President of the Common Council	William G. Godwin	01-01-23 to 08-27-23
	Tai A. Adkins (acting)	08-28-23 to 12-31-23
	Tai A. Adkins	01-01-24 to 01-22-25
	Lori Latham (acting)	01-23-25 to 12-31-25
Executive Director of the Sanitary and Storm Water Management Districts	Charles Peller Jr.	01-01-23 to 10-01-23
	Rhonda Anderson	10-02-23 to 04-14-24
	Brenda Scott-Henry (interim)	04-15-24 to 12-31-24
	(Vacant)	01-01-25 to 01-01-25
	Ragen Hatcher	01-02-25 to 12-31-25
President of the Board of Sanitary and Storm Water Commissioners	Daniel F. Vicari	01-01-23 to 12-31-23
	William Allen	01-01-24 to 12-31-25



Paul D. Joyce, CPA
State Examiner

INDIANA STATE BOARD OF ACCOUNTS

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

This report is supplemental to the audit report of the City of Gary (City), for the period from January 1, 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

April 9, 2025

FINANCE DEPARTMENT
CITY OF GARY

FINANCE DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS AND REPORTING

The same comment also appeared in six prior Reports, including the three most recent Reports B59829, 000000794S, and 81777S.

Condition and Context

There were several deficiencies in the internal control system of the City 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

Reconcilements as of December 31, 2023, were mostly completed from January through May 2024. However, revised reconcilements had to be requested and provided in September 2024, to reflect the audit adjustments recorded in the 2023 records that the City approved as part of the previous year audit which concluded in August 2024.

The City has over 50 bank accounts with many complicated reconciling items, some dating back to 2018. As such, additional audit procedures were performed to test the December 31, 2023 reconcilements provided.

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

- The reconcilements contained amounts that were an accumulation of variances noted each month between posted transactions when compared to the bank activity without further research done.
- The December bank reconciliation contained 64 reconciling items related to 2023 receipt or deposit transactions. The possible effect on the financial statement of these items could have been a \$12,064,238 overstatement or \$12,849,751 understatement of receipts. The net effect was a \$785,513 understatement of receipts. The financial statement was not adjusted for these items.
- The December bank reconciliation contained 79 reconciling items related to 2023 disbursement transactions. The possible effect on the financial statement of these items could have been a \$2,820,023 overstatement or a \$2,969,117 understatement of disbursements. The net effect was a \$149,094 understatement of disbursements. The financial statement was not adjusted for these items.
- Some bank accounts owed amounts to other bank accounts, and these amounts should have been transferred and should net to zero. However, the "transfers to banks" did not reconcile to the "transfers from banks" by \$658,398 as of December 31, 2023. The financial statement was not adjusted for these variances.
- Outstanding check detailed listings generated from the software system were determined unreliable for the operating bank accounts. The listings included electronic funds transfers and checks that had cleared the bank.

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 \$728,450 as of December 31, 2023, when compared to the adjusted ledger and financial statement. The net variance included \$682,221 of undocumented reconciling items. 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 \$139,675, and various state distributions, totaling \$33,561, received in 2023 were not recorded in the ledger or reported in the financial statement. Distributions received from the State of Indiana from 2018 to 2023, totaling \$942,166, had not been posted by the end of 2023; of these distributions, all remained unposted as of November 2024. The financial statement was not adjusted for these distributions received and not timely posted.

Payroll Disbursements

The City did not have internal controls in place to ensure the data from the outside payroll vendor was properly imported and posted into the City's financial system.

Financial Reporting

An Annual Financial Report is required to be submitted annually via the Indiana Gateway for Government Units financial reporting system, which was the source for the financial statement. There was a review process in place to detect and correct errors prior to submission; however, it was determined to not be effective.

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:

- The Withholdings fund receipts and disbursements were each overstated by \$12,119,360. The overstatements were due to the City converting from a three-digit fund number to a four-digit fund number as required.
- The City reported amounts that reflected the audit adjustments recorded in the 2023 records that the City approved as part of the previous year audit which concluded in August 2024. This resulted in the AMERICAN RESCUE PLAN, the Health and Human Services, the WCI/UCI Benefit, and the Rdlvp Aux Non-Reverting funds receipts and disbursements to be overstated by a total of \$3,635,065.

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

Criteria

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

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 as set forth in the uniform compliance guidelines. 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](#)."

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

The same comment also appeared in prior Report 81777S.

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

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

- Errors on Claims
- Subsequent Events - Timeliness of Reconciliations
- Compensation and Benefits
- Gateway Uploads
- Transfer Approval

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 18 prior Reports, including the 3 most recent Reports B59829, 000000794S, and 81777S.

Condition and Context

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2023. 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, 2023, including the grant funds with no reimbursements received through September 2024, are listed below:

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

Fund	Amount Overdrawn
PUBLIC SAFTY ILBC GRANT	\$ 30,924
Tobacco	87,768
HIV Prevention	36,950
Equal Opportunity Commission Hr	57,718
Youth Services Bureau	58
Health And Human Services	177,076
Bioterrorism	57,111
Community Development Block Grant	302,726
Salary Fee Judicial	40
Lake Michigan Coastal	31,713

The Health and Human Services fund has remained overdrawn for at least 17 years.

The Parks and Recreation, the Blight Elimination Program, and the Lancaster Dusable TIF District funds reported positive or zero cash and investments balances as of December 31, 2023. However, the funds' cash and investment balances contained outstanding temporary loans owed to other funds totaling \$1,315,646. Without these temporary loans, the cash and investment balances of the Parks and Recreation, the Blight Elimination Program, and the Lancaster Dusable TIF District funds would have been overdrawn by \$212,913, \$735,000, and \$24,318, respectively.

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 18 prior Reports, including the 3 most recent Reports B59829, 00000794S, and 81777S.

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. 9668 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. 9668 enabling the rollover of the loans did not include \$1,670,963 of the temporary loans outstanding at the end of the year.

The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2023:

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

Loan To	Loan From	Loans Outstanding January 1, 2023	Loans Made	Loans Repaid	Loans Outstanding December 31, 2023
General	Other City Funds (Excluding GSD Funds)	\$ 7,070,800	\$ -	\$ -	\$ 7,070,800
General	GSD Funds	3,657,127	-	750,000	2,907,127
Other City Funds (Excluding GSD Funds)	Other City Funds (Excluding GSD Funds)	<u>2,613,126</u>	-	<u>297,480</u>	<u>2,315,646</u>
Totals		<u>\$ 13,341,053</u>	<u>\$ -</u>	<u>\$ 1,047,480</u>	<u>\$ 12,293,573</u>

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	GSD Equipment Replacement	\$ 2,907,127	2006
General	Media	400,000	2010
General	Remote Encoding Center	500,000	2010
Parks and Recreation	Consolidated Area TIF District	300,000	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
General	Lakefront TIF District	720,000	2017
Parks and Recreation	Wheel Tax	240,329	2017
RdMp Aux Non-Reverting	Consolidated Area Tif District	1,000,000	2020
Blight Elimination	Lakefront Tif District	<u>735,000</u>	2020
Total		<u>\$ 12,293,573</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 \$2,907,127, 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) . . .

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

- (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)

ANNUAL FINANCIAL REPORT

The same comment also appeared in prior Reports 000000794S and 81777S.

Condition and Context

The Annual Financial Report (AFR) is required to be submitted annually via the Indiana Gateway for Government Units financial reporting system, which was the source of the financial statement, other information, and the Schedule of Expenditures of Federal Awards (SEFA). Effective internal controls were not established to ensure the timely submission, accuracy, and completeness of the information in the AFR, which resulted in the following errors:

Grants

- The Highway Planning and Construction grant expenditures were overstated by \$1,581,115.
- Several grants had individually immaterial errors that resulted in misstatements of expenditures of \$1,695,485 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 and the SEFA presented in the Federal Compliance Audit Report of the City.

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

Capital Assets

Amounts were reported in the AFR for the value of the capital assets owned by the City, totaling \$422,932,671, as of December 31, 2023.

However, the City was unable to provide a detailed capital asset record to support the amounts reported. In addition, \$2,744,480 of machinery, equipment, and vehicles was reported for governmental activities. No other amounts were reported for governmental activities for land, infrastructure, buildings, and improvements other than buildings. These categories were determined to be materially understated since the City owns land, infrastructure, buildings, and improvements other than buildings.

Due to the material errors noted, the City approved the omission of the Schedule of Capital Assets from the Financial Statement Audit Report of the City.

Accounts Payable and Accounts Receivable

Amounts were reported for accounts payable and accounts receivable in the AFR totaling \$4,736,279 and \$21,268,916, respectively. However, based on supporting documentation provided, the amounts were determined to be materially overstated. Due to the material errors noted, 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 as set forth in the uniform compliance guidelines. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

CAPITAL ASSETS

The same comment also appeared in prior Reports 000000794S and 81777S.

Condition and Context

The City was unable to provide a detailed capital asset listing 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 2023. Furthermore, we could not determine if a complete physical inventory was taken at least every two years as required.

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

Criteria

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

TIMELY RECORDING

The same comment also appeared in prior Reports 000000794S and 81777S.

Condition and Context

Financial transactions were not recorded in the records at the time of the transaction as required. Distributions received from the State of Indiana from 2018 to 2023, totaling \$942,166, were not posted by December 31, 2023, and remain unposted as of November 2024.

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 51-15-1-1.

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 five prior Reports, including the three most recent Reports B59829, 000000794S, and 81777S.

Condition and Context

The following errors were noted in the testing of disbursements:

- Disbursements for transfers of subsidies and corrections, totaling \$19,414,780, 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)

- The payments made to the City's health insurance provider, totaling \$10,364,309, were paid via wire transfer and did not go through the regular claims process. These wire transfers were not properly supported by an APV as required by law. In addition, the disbursements were not certified by the fiscal officer or approved by the governing board on an APV or register of APVs.

Criteria

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

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

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

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

SUBSEQUENT EVENTS - TIMELINESS OF RECONCILIATIONS

The same comment also appeared in four prior Reports, including the three most recent Reports B59829, 000000794S, and 81777S.

Condition and Context

As of November 11, 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."

COMPENSATION AND BENEFITS

A similar comment also appeared in prior Reports 000000794S and 81777S.

Condition and Context

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

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

- Of the 27 payroll transactions tested, variances were noted in 2 firefighter payroll transactions. Upon further inquiry, City officials explained that additional compensation for firefighters was negotiated in a new collective bargaining agreement in which salaries were increased and provided a schedule of these increased rates. However, the City could not provide documentation that the appropriate governing body had approved the new bargaining agreements and increased rates.
- 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 timecards, 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

Indiana Code 5-11-9-4(b) states:

"The state board of accounts shall require that records be maintained showing which hours were worked each day by officers and employees:

- (1) covered by section 1 or 2 of this chapter; and
- (2) employed by more than one (1) public agency or in more than one (1) position by the same public agency described in section 1 or 2 of this chapter."

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)

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)

GATEWAY UPLOADS

The same comment also appeared in four prior Reports, including the three most recent Reports B59829, 00000794S, and 81777S.

Condition and Context

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

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

Annual upload requirements include the year-end investment statements and register of investments, excel data capture (data dump), detail of receipts by fund and account (if data capture not available), detail of disbursements by fund and account (if data capture not available), current year salary ordinance and amendments, annual vendor history report, annual payroll history report, annual funds ledger, accounts payable/receivable schedule support, direct federal grant agreements/award letters and amendments initiated during the year, agreements for subawards made to subrecipients for all federal grants initiated during the year, personnel policy, and court trust fund subsidiary detail as of December 31.

The City did not comply with the Amended State Examiner Directive 2018-1 (Directive) for 2023 as follows:

The following issues were noted with the monthly upload requirements:

- Bank reconciliations, bank statements, and outstanding check lists were uploaded for some banks but were not timely, that is, no later than the 15th day of the second succeeding month required by the Directive. Uploads of some of the monthly bank reconciliations, bank statements, and outstanding check lists for the year did not occur until October 2023 through May 2024.
- Monthly bank reconciliations, bank statements, and outstanding check lists for the primary operating banks were not uploaded for any of the months.
- Meeting minutes of the Board of Park Commissioners, the Sanitary District Board of Commissioners, or the Storm Water Management District Board of Directors were not uploaded.
- Links uploaded for the Common Council meeting minutes did not include all meetings.

The following annual requirements were not uploaded:

- Annual Vendor History Report
- Annual Funds Ledger
- Salary Ordinance and Amendments for the Sanitary and Storm Water Districts
- Court Trust Fund Subsidiary Detail as of December 31
- Accounts Payable/Receivable Schedule Support
- Personnel Policy

Criteria

All counties, cities, towns, townships, libraries, schools and special districts will use the Engagement Uploads to upload files containing financial and governmental unit information on Gateway to allow the SBOA to conduct audit planning and audit processes prior to on-site work at a unit. This remote process will provide for more efficient data processing and save audit costs for our clients. (Amended State Examiner Directive 2018-1, Updated November 9, 2020, and effective with uploads due February 15, 2021)

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

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)

TRANSFER APPROVAL

The same comment also appeared in prior Report 81777S.

Condition and Context

Transfers, totaling \$1,363,252, were recorded without Common Council approval. Of these transfers, \$500,000 was from the Green Urbanism fund to the Landfill Closure fund as a cash transfer, and \$42,775 was from the Blight Elimination Program fund to the General fund to close out the fund. Additionally, Ordinance 9557 was approved by the Common Council and budgeted for \$9,810,393 of subsidy transfers from the Riverboat fund. Transfers from the Riverboat fund to the General fund, the Park Nonreverting/Athletics fund, and the Marquette Park fund totaled \$10,630,870, resulting in transfers totaling \$820,477 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:

". . . 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

OFFICIAL RESPONSE

April 16, 2025

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

Re:2023 Audit Results and Comments (*Official response*)
M. Celita Green, City of Gary Controller

Financial Transactions and Reporting:

NOTE: Due to the time and effort of the city to get back on schedule with its audits in the past 2 years, we have not had the customary time of 1 year between audits to make corrections and improve processes, which results in repeated findings.

Cash and Investments (Bank Reconciliations)-City

There have been challenges in timely completion of city bank reconciliations, due to changes in leadership, staffing, and COVID between 2018 and 2022, which has resulted in adjustments overlapping in current year audits. While bank reconciliations and audits are now completed for these years, we are still making progress on completing bank reconciliations by the 15th of the following months, and posting reconciling entries timely. We will continue to work diligently to improve the posting of reconciling items in a timely manner.

Additionally, we are currently working with our consultant to reconcile the differences in outstanding check detail listings.

Journal Entries:

The City does have a system of to ensure segregation of responsibilities for initiating, prior reviewing, and recording journal entries, however, we do not have a process that indicates how soon the entry should be made after it is approved. As we continue to move forward to timeliness in our completion of bank reconciliation, we will try to use fewer journal entries and restrict the use to prior year adjustments, investment ledger transfers, closing entries.

Receipts:

The City is aware that some of our revenues have not been recorded timely, partly due to missing information from departments that may need to be provided in order to accurately record, staff turnover and associated learning curve, or closer oversight. We are working to improve in this area as our staffing becomes more stable.

Payroll Disbursements:

The city in the final stage of converting its payroll process from an outside vendor, back to the city's financial system vendor. No importing will be required, and payroll data is automatically posted, which should eliminate the errors indicated.

INTERNAL CONTROLS

Overdrawn Cash Balances:

The city has 186 funds, of which 10 funds are carrying overdrawn balances at the end of 2023. Also, 3 funds which have positive balances that would be negative if it paid back its outstanding loans at this time. The city is persistently working to bring each of these funds to positive cash balances, and prevent any others from becoming negative.

Temporary Transfers:

The city has developed a temporary transfers repayment schedule that will allow all outstanding loans to be fully repaid by 2027. This schedule has been shared with the Common Council and in 2024, \$2,247,450 was repaid. Although current state legislation affecting city revenues may pose challenges in repaying the loan, we will continue to make our best efforts to adhere to our repayment schedule

ANNUAL FINANCE REPORT

Grants

The City actually hired consultants to assist in preparation of the SEFA, but we are still continuing to experience some errors. The city is currently looking at other options to assist with the SEFA preparation.

Capital Assets

The City had not completed asset inventory assessment since 2017. Beginning 2024 and ending in March 2025, the city has completed a city-wide inventory assessment with detailed information to support the amounts reported in the Annual Report.

Accounts Payable and Receivable

The Prior Year Payables report, instead of the Current Accounts Payable report was used in error for the amount that was recorded in AFR. This error has been noted. Gary Sanitary district has changed its process on how it relieves its receivables and generate Accounts Receivable report for the AFR.

Timeliness in Recording

The City has been working diligently to get bank reconciliations completed and audits back on schedule. For the larger and more complex banks that had not be reconciled since 2018, they have been reconciled through 2024, as of this date. With the completion of the 2023 audit, the city is now also up-to-date on our audits. We will now focus on posting reconciling items, like the state distributions that may not yet be recorded from previous years bank reconciliations.

Errors on Claims

Wire transfers for disbursements, including health insurance claims are now being accompanied with a completed AP voucher, and submitted to BOW for approval.

Subsequent Events – Timeliness of Reconciliations

As of November 11, 2024, not all of the bank reconciliation was completed due to the city's extraordinary efforts to bring prior year bank reconciliations up-to-date in order to perform 2 years of audits in 1 year. As of this date, not only has all of the 2024 bank reconciliations been completed, but many of the 2025 bank reconciliation's are also complete. It is the city's goals to maintain timeliness of reconciliations as we need forward.

Compensation and Benefits

The City has no designated which employees are considered Salary Exempt and Salary Non-Exempt.

Gateway Uploads

The City is now in discussions regarding implementing processes to assure that required uploads are made and in a timely manner.

Transfer Approval

A 2024 Green Urbanism revenue budget was approved by the Council reflecting the transfers in 2023, however, the department did not request the transfer until 2024, which was when the transfer was made. The River Boat transfer of \$819,831 subsidies was inadvertently recorded in the correct fund, but incorrect department. This error caused the same entry to be recorded in the correct department. creating an excess in the amount approved to be transferred.

FINANCE DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on April 9, 2025, with M. Celita Green, City Controller; Yvette Williams, Deputy City Controller; Melissa Aguilar-Prieto, Finance Manager; Mileak Harper, former City Controller; Ellis Dumas III, Chief of Staff; and Linda Barnes-Caldwell, Common Council member.



COMMON COUNCIL
CITY OF GARY

COMMON COUNCIL
CITY OF GARY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

The same comment also appeared in prior Report 81777S.

Condition and Context

Internal control deficiencies resulted in the noncompliance over:

- Overdrawn Cash Balances
- Temporary Transfer of Funds

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 18 prior Reports, including the 3 most recent Reports B59829, 000000794S, and 81777S.

Condition and Context

The financial statement presented for audit included funds with overdrawn cash balances at December 31, 2023. 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, 2023, including the grant funds with no reimbursements received through September 2024, are listed below:

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

Fund	Amount Overdrawn
PUBLIC SAFTY ILBC GRANT	\$ 30,924
Tobacco	87,768
HIV Prevention	36,950
Equal Opportunity Commission Hr	57,718
Youth Services Bureau	58
Health And Human Services	177,076
Bioterrorism	57,111
Community Development Block Grant	302,726
Salary Fee Judicial	40
Lake Michigan Coastal	31,713

The Health and Human Services fund has remained overdrawn for at least 17 years.

The Parks and Recreation, the Blight Elimination Program, and the Lancaster Dusable TIF District funds reported positive or zero cash and investments balances as of December 31, 2023. However, the funds' cash and investment balances contained outstanding temporary loans owed to other funds, totaling \$1,315,646. Without these temporary loans, the cash and investment balances of the Parks and Recreation, the Blight Elimination Program, and the Lancaster Dusable TIF District funds would have been overdrawn by \$212,913, \$735,000, and \$24,318, respectively.

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 18 prior Reports, including the 3 most recent Reports B59829, 00000794S, and 81777S.

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. 9668 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. 9668 enabling the rollover of the loans did not include \$1,670,963 of the temporary loans outstanding at the end of the year.

The following summarizes the temporary transfer activity of the City and the Gary Sanitary District (GSD) for 2023:

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

Loan To	Loan From	Loans Outstanding January 1, 2023	Loans Made	Loans Repaid	Loans Outstanding December 31, 2023
General	Other City Funds (Excluding GSD Funds)	\$ 7,070,800	\$ -	\$ -	\$ 7,070,800
General	GSD Funds	3,657,127	-	750,000	2,907,127
Other City Funds (Excluding GSD Funds)	Other City Funds (Excluding GSD Funds)	<u>2,613,126</u>	<u>-</u>	<u>297,480</u>	<u>2,315,646</u>
Totals		<u>\$ 13,341,053</u>	<u>\$ -</u>	<u>\$ 1,047,480</u>	<u>\$ 12,293,573</u>

Receiving Fund	Disbursing Fund	Outstanding Balance	Outstanding Since
General	GSD Equipment Replacement	\$ 2,907,127	2006
General	Media	400,000	2010
General	Remote Encoding Center	500,000	2010
Parks and Recreation	Consolidated Area TIF District	300,000	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
General	Lakefront TIF District	720,000	2017
Parks and Recreation	Wheel Tax	240,329	2017
RdMp Aux Non-Reverting	Consolidated Area Tif District	1,000,000	2020
Blight Elimination	Lakefront Tif District	<u>735,000</u>	2020
Total		<u>\$ 12,293,573</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 \$2,907,127, 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) . . .

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

- (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 April 9, 2025, with M. Celita Green, City Controller; Yvette Williams, Deputy City Controller; Melissa Aguilar-Prieto, Finance Manager; Mileak Harper, former City Controller; Ellis Dumas III, Chief of Staff; and Linda Barnes-Caldwell, Common Council member.

SANITARY DISTRICT
CITY OF GARY

SANITARY DISTRICT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

FINANCIAL TRANSACTIONS

The same comment also appeared in three prior Reports B59829, 000000794S, and 81777S.

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 and receipts to ensure the accuracy and timeliness of the recordkeeping.

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 Gateway deadlines. However, for January through July, the bank reconciliations were uploaded as a batch on September 26, 2023, and, therefore, were not completed timely.

Additionally, the Sanitary District's 2023 bank reconciliations contained unidentified outstanding checks, totaling \$110,289, and unidentified deposits in transit, totaling \$138,555, 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*.

Additionally, 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

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."

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

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. . . ."

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

The same comment also appeared in prior Report 81777S.

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)

- Record of Hours Worked
- Gateway Uploads

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 ten prior Reports, including the three most recent Reports B59829, 000000794S, and 81777S.

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 (District) did not fulfill its responsibility to collect amounts owed to the District for wastewater and sanitation charges. No further action was taken by the District to collect the unpaid fees or write-off the amounts owed. As of December 31, 2023, of the \$21,269,106 accounts receivable balance, \$8,124,833 was outstanding over 180 days, dating back to 2021, and \$9,263,226 was outstanding since September 2021 when the District converted to a new utility billing system.

Subsequently, on December 2, 2024, the Sanitary District Board of Commissioners approved GSD Resolution No. SD24-07, Approving the Write-Off of Aged Uncollectible Wastewater Accounts. The resolution approved the write-off of the final listing of aged uncollectible accounts, as of November 30, 2024, in an amount not to exceed \$9,262,650, for delinquent accounts dating back to 1991.

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

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.
- (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."

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

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 18 prior Reports, including the 3 most recent Reports B59829, 000000794S, and 81777S.

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 \$2,907,127, 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 Reports 000000794S and 81777S.

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 2023. 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

The same comment also appeared in prior Report 81777S.

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 \$37,733,353 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

This same comment also appeared in prior Report 81777S.

Condition and Context

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

- 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 \$3,895,833. Disbursements were posted monthly; however, the receipt side of the transfers was not posted to the ledger until December 31, 2023.
- The Sanitary District Refunding Bond Series 2020A debt payments were paid on January 6 and July 17, 2023, when the semiannual debt payments were due, totaling \$2,430,704; however, the debt payments were not posted to the ledger until December 31, 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)

RECORD OF HOURS WORKED

Condition and Context

The Sanitary District did not maintain appropriate payroll records reflecting the actual number of hours worked each day for salaried employees as required by Indiana Code 5-11-9-4. Of the four Sanitary District employees tested, none of the four salaried employees had time records that reflected hours worked.

Criteria

Indiana Code 5-11-9-4(b) states:

"The state board of accounts shall require that records be maintained showing which hours are worked each day by officers and employees:

- (1) covered by section 1 or 2 of this chapter; and
- (2) employed by more than one (1) public agency or in more than one (1) position by the same public agency described in section 1 or 2 of this chapter."

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

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

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

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

Additional information regarding FLSA rules and regulations may be obtained from the Department of Labor.

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

GATEWAY UPLOADS

The same comment also appeared in prior Report 81777S.

Condition and Context

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

Annual upload requirements include current year salary ordinance and amendments and accounts payable/receivable schedule support. Items were either not uploaded or not timely uploaded as follows:

- Bank reconciliations, bank statements, outstanding check lists, and funds ledger were uploaded for the banks but were not timely, that is, no later than the 15th day of the second succeeding month required by the Amended State Directive. Uploads of some of the monthly bank reconciliations, bank statements, outstanding check lists, and funds ledger for the year did not occur until October 2023 through May 2024.
- Meeting minutes of the Sanitary District Board of Commissioners or the Storm Water Management District Board of Directors were not uploaded.
- The annual approved salary ordinance or schedule was not uploaded.
- The annual accounts payable/receivable schedule support was not uploaded.

Criteria

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



April 18, 2025

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 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 rec process to result in timely posting of outstanding adjustments, and include identification of all outstanding checks and deposits in transit.

In the 2023 year, there were some challenges with timely completion of some of the bank recs 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. This process did improve in the second half of 2023 and the Sanitary District was able to consistently document and timely review all Bank Recs 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 recs have been signed and uploaded to Gateway, and this rhythm of timely bank rec completions continues into 2025.

Additional Comments – Financial Transactions: The unidentified outstanding checks of \$110,289 referenced in the audit report has now been identified and reconciled in GSD’s records. The unidentified deposits in transit of \$138,555 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. The large amount of back-dated receipts posted during 2023 was a consequence of a loss of data that occurred in the ransomware attack mentioned above. The data loss included the appropriate receipt upload forms that were used, and had to be reconstructed. GSD has backed these forms up in addition to taking many IT security measures which will help prevent this problem going forward.

INTERNAL CONTROLS

Description of Corrective Action Plan:

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 internally review existing internal control processes against the Uniform Internal Control Standards for Indiana Political Subdivisions, as well as conduct an evaluation of all finance related internal controls processes to evaluate compliance with internal control standards. This evaluation will include a compilation of workflow charts for all processes, including personnel responsible and identification of segregation of duties, and then reviewing those processes for any gaps or improvements. More specific responses to the internal control matters pertaining to the individual comments are noted in the following sections where applicable.

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 2025), which is the next due date.

Responsibility to collect amounts owed – GSD is currently reviewing methods of improving collections on wastewater charges such as bill redesign, customer online portals, etc. Further, in 2025, GSD started sending intent to lien letters to customers with past due balances less than 3 years old. Already GSD has collected approximately \$70,000 of these past due amounts from customers in response to the letters. GSD will continue sending intent to lien letters on eligible past due balances on a regular basis. By December 2025, GSD will file sewer liens with the County on customers who have not paid in response to the intent to lien letters. As noted in the audit report, the Commissioners approved the write-off of aged uncollectible wastewater accounts, which has addressed prior aspects of this audit comment, and will assist GSD going forward on focusing on more collecting past due balances that are still collectible.

ADMINISTRATIVE OFFICE

3600 West 3rd Avenue, Gary, IN 46406
Tel: 219-944-0595 | Fax: 219-977-8318

CUSTOMER SERVICE OFFICE

504 Broadway, Suite 103, Gary, IN 46402
Tel: 219-883-1027 | Fax: 219-883-1029



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 made the final payment in January 2025, as such the loan balance is now resolved in full.

CAPITAL ASSETS

Description of Corrective Action Plan:

GSD does maintain detailed capital asset records for Sanitary and Stormwater assets, which are updated each year for additions and disposals. However, GSD was not requested to provide this documentation during the audit period, which is likely due to the incompleteness of the Fixed Assets section in the 2023 Gateway Annual Financial Report. In 2024, the City Controller's Office is completing the Fixed Assets information in Gateway, based on GSD records as well as the report issued by an outside consulting firm, who reviewed the City's Fixed Assets and performed a physical inventory of such during 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

Description of Corrective Action Plan:

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 2023. The District was nevertheless able to review A/R balances via the subsidiary ledger within UMBS billing system. As of the 2024 year, GSD accounting has implemented a new process designed to update the A/R accounts in RDS monthly. This process also ensures that adjustments to A/R will not overstate the receipts reported on the AFR, or any other financial report. As such, this issue is resolved as of the 2024 year.

TIMELY RECORDING

Description of Corrective Action Plan:

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 2023. The GSD Finance department is collaborating with the City Controller's and RDS to revisit the current process and train staff on RDS functionality to ensure both sides of the transfer are recorded timely. Likewise, GSD is training staff on how to timely complete the bond and interest transactions when debt payments are made.



RECORD OF HOURS WORKED

GSD maintains appropriate payroll records that reflect the actual number of hours worked for salaried employees as required by Indiana Code. However, GSD acknowledges that the appropriate documentation for the auditor's samples was not provided during the audit field work due to a misunderstanding of the request. Going forward, GSD will continue to maintain appropriate records, and be prepared to provide the correct documentation for any future audit testing requests.

GATEWAY UPLOADS

Description of Corrective Action Plan:

Monthly and Annual Uploads – GSD understands the requirement to upload bank reconciliations, approved board minutes, and funds ledgers to Gateway monthly, as well as salary resolutions and other annual documents at year-end. In 2023, 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 alternative mediums (i.e. electronic mail, Microsoft OneDrive share folder). GSD believes that all required information for the 2024 year has been uploaded to Gateway or otherwise provided to SBOA. For the 2025 year to date, all monthly uploads for bank reconciliations, approved board minutes, and funds ledgers have been uploaded to Gateway through March.

Respectfully submitted,

A handwritten signature in blue ink that reads "Ragen H. Hatcher".

Ragen H. Hatcher, Executive Director
Gary Sanitary District

SANITARY DISTRICT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on April 9, 2025, with M. Celita Green, City Controller; Yvette Williams, Deputy City Controller; Jerome Foster, Sanitary District Finance Manager; Maurice G. Mabon, Board of Sanitary and Storm Water Commissioners member; Ola V. Morris, Board of Sanitary and Storm Water Commissioners member; Eric Cender, Financial Advisor; Melissa Aguilar-Prieto, Finance Manager; Mileak Harper, former City Controller; Ellis Dumas III, Chief of Staff; and Linda Barnes-Caldwell, Common Council member.

REDEVELOPMENT COMMISSION
CITY OF GARY

REDEVELOPMENT COMMISSION
CITY OF GARY
AUDIT RESULT AND COMMENT

TAX INCREMENT FINANCING (TIF) ALLOCATION FUND USES

The same comment also appeared in prior Report 81777S.

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 12 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 36-7-14-39(b)(4):

- The E. Lakefront TIF allocation funds were expensed for consulting services, totaling \$14,362. \$2,155 of these services was for a project within the Consolidated Area TIF District. Documentation to tie the remainder of the services to a specific allocation area was not provided for audit.
- The Lakefront TIF District allocation funds were expensed for legal services, security, and accounting services, totaling \$6,633. Security services are not an allowable use of TIF funds. Documentation to tie the legal and accounting services to a specific allocation area was not provided for audit.
- The Consolidated Area TIF District allocation funds were expensed for legal, security, and accounting services, totaling \$16,113. Security services are not an allowable use of TIF funds. \$5,250 in legal services was for a property located within the E. Lakefront TIF District. Documentation to tie the accounting services to a specific allocation area was not provided for audit.

Criteria

Indiana Code 36-7-14-39(b)(4) 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.

REDEVELOPMENT COMMISSION
CITY OF GARY
AUDIT RESULT AND COMMENT
(Continued)

(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:

REDEVELOPMENT COMMISSION
CITY OF GARY
AUDIT RESULT AND COMMENT
(Continued)

"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)

REDEVELOPMENT COMMISSION
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on April 9, 2025, with M. Celita Green, City Controller; Yvette Williams, Deputy City Controller; Christopher Harris, Executive Director of the Department of Redevelopment; George Rogge, Redevelopment Commission member; Melissa Aguilar-Prieto, Finance Manager; Mileak Harper, former City Controller; Ellis Dumas III, Chief of Staff; and Linda Barnes-Caldwell, Common Council member.



PARKS AND RECREATION DEPARTMENT
CITY OF GARY

PARKS AND RECREATION DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS

INTERNAL CONTROLS

Condition and Context

Internal control deficiencies resulted in the noncompliance over:

- Hudson Campbell - Supporting Documentation and Fees
- Marquette Park - Supporting Documentation and Fees
- Subsequent Events - Marquette Park - Supporting Documentation and Fees

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. . . ."

HUDSON CAMPBELL - SUPPORTING DOCUMENTATION AND FEES

This same comment appeared in a Management Letter addressed to City Officials for the audit periods ending December 31, 2022, and December 31, 2021. The same comment also appeared in prior Reports B56040 and B59829.

Condition and Context

The City did not have internal controls to ensure that fees collected for physical fitness activities were properly documented to ensure rates charged agreed to the Park Board approved rates. An employee at Hudson Campbell collected payments for physical fitness activities and recorded the sale in the point-of-sale (POS) system. At the end of the day, the manager ran a sales report from the POS system that summarized all collections. The next day, the collections and POS report were remitted to the City Controller's office to be receipted, deposited, and recorded to the records.

PARKS AND RECREATION DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

When the POS system was not functioning, sales were still made, and payments were collected. However, written policies or procedures were not in place to ensure collections would be properly receipted and accountable for by type and total during this time. This resulted in the daily sales report, if any, to not agree with the amount of collections remitted to the City Controller's office to be receipted, deposited, and recorded to the records.

In addition, we were unable to determine if fees were properly charged due to the following:

- When multiple daily passes were purchased by the same individual, the sales report only gave the total collected and did not document how many passes were purchased.
- When a change of membership occurred, the sales report did not document the new membership level.
- The sales report did not document the number of hours for the tennis court and aerobic room rentals.
- There were six instances when the Adult Day Pass was charged at a rate of \$4 instead of the approved \$8 rate without explanation.
- A weekend day pass rate was charged; however, the rate was not approved by the Park Board.

Criteria

Receipts shall be issued and recorded at the time of the transaction. (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)

MARQUETTE PARK - SUPPORTING DOCUMENTATION AND FEES

Condition and Context

There were deficiencies in the internal control system of the City related to Marquette Park receipts, deposits, lease rentals, and park events - vendor contracts. Marquette Park offers several services, including facility rentals, catering, beach parking, special events, and concession stand sales. There were deficiencies as noted below:

Parking Receipts

Beach parking fees are collected at Lake Street and Marquette Beach locations for residents and nonresidents for automobiles, trailers, jet skis, etc., by part-time employees (ticket specialists) during the spring and summer months. Two pay stations were in areas outside of the beach area that accept credit cards payments only for parking.

PARKS AND RECREATION DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

Ticket specialists collected parking fees and recorded the sale in the point-of-sale (POS) system which issued a receipt in duplicate. One copy was given to the customer, and one copy was retained in the ticket specialist's envelope. At the end of the day, the ticket specialist totaled all the duplicate receipts retained in the envelope and summarized the collections on the outside of the envelope. The envelope and supporting receipts were then remitted to the manager. The manager ran a batch report from the POS that totaled all sales and compared it to the ticket specialist's calculated total collections for the day, which were to agree.

However, ten days of parking receipts were tested, and the following discrepancies were noted:

- On three occasions, the amount noted on the ticket specialists' envelope agreed to the individual receipt totals included in the envelope, but the POS batch report did not agree. The variances ranged from an overage of \$8 to a shortage of \$58.
- On two occasions, the ticket specialists' envelope agreed to the POS batch report, but the individual receipt totals did not agree. The variances ranged from an overage of \$10 to a shortage of \$20.
- On one occasion, the ticket specialists' envelope, the POS batch report, and the individual receipts did not agree. The variance noted was an overage of \$8.
- On five occasions, the ticket specialists' envelope total was changed by the reviewer to agree to the POS batch report.
- In one instance, a nonresident parking fee was charged half price with no explanation noted.

Marquette Park Deposits

Funds collected over \$500 were not deposited by the next business day as required. The beach was open seven days a week during the season, and we would have expected deposits to be made daily (except for Sundays) during this time. For the months of June, July, August, September, and October 2023, deposits were only made four, five, two, three, and four times, respectively, totaling \$565,737. Additionally, we were unable to determine which receipts were included in each bank deposit, and variances between bank deposits and ledger receipts were noted in each month.

Additionally, credit card sales were collected via pay stations when the beach was open June through October; however, receipts were only posted on one day in August and one day in October for all five months' collections totaling \$23,680.

Leases/Rentals

The Marquette Park Pavilion was available to the public to rent for special occasions such as weddings, reunions, corporate events, etc. The rental fees varied depending on the type of event, space rented within the pavilion, and additional services provided by park personnel. Fees for rentals were supported by a rental agreement between the park and the lessee and a \$500 refundable deposit was required upon signing of the agreement.

PARKS AND RECREATION DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

The City contracted with an outside catering vendor for events. Customers were required to use this vendor for catering and made catering payments directly to the vendor. Per the contract, "Caterer shall pay (20%) percent of the total pre-taxed billing for all food, non-alcoholic and alcoholic beverage services rendered by Caterer or Caterer's agent at the Pavillion." This 20 percent was to be remitted to the City within five business days after a catered event at the Pavillion.

The following issues were noted in a test of ten facility rentals:

- All events require a \$500 refundable security deposit. Credit card information or checks were collected for the security deposit but were not charged to the credit card or deposited to the bank at the time of collection as required.
- Two events tested did not have supporting documentation from the caterer available for audit (receipts, bar sales, itemized catering list, etc.), and, therefore, no breakdown of catering charges was available to ensure 20 percent was remitted to the City as required by the contract.
- One event tested did not have documentation of the rental balance paid in full. A partial payment was made, and a \$35 balance was outstanding. The same event did not have documentation of the 20 percent of the catering sales paid to the City as required per the Professional Services Contract Catering Agreement for Marquette Park.
- For one event tested, the incorrect amount was paid to the City by the caterer. Twenty percent of the total pre-taxed billing was \$2,297; however, the caterer remitted \$2,225 to the City which resulted in a \$72 loss of revenue.

Park Events - Vendor Contracts

The park department contracts with vendors for supplies and services for events held at Marquette Park. New written contract agreements with vendors were not obtained once the period of the contract expired. Park personnel submitted claims for payment using purchase orders from the previous years' expired contracts.

In a test of four park vendor contracts, payments totaling \$19,985 were made based on three contracts that had expired either December 31, 2022, or March 31, 2023.

Criteria

Indiana Code 5-13-6-1(d) states in part: "Except as provided in subsection (g), a city . . . or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories: . . ."

Fees can only be collected as specifically authorized by law or properly authorized ordinance/resolution. When a fee is NOT specified by law, but instead through the use of an ordinance/resolution, sufficient authoritative reference should be maintained. (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)

PARKS AND RECREATION DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

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

SUBSEQUENT EVENTS - MARQUETTE PARK - SUPPORTING DOCUMENTATION AND FEES

Condition and Context

There were deficiencies in the internal control system of the City related to Marquette Park receipts, deposits, lease rentals, and park events - vendor contracts. Marquette Park offers several services, including facility rentals, catering, beach parking, special events, and concession stand sales. There were deficiencies as noted below:

Parking Receipts

Beach parking fees are collected at Lake Street and Marquette Beach locations for residents and nonresidents for automobiles, trailers, jet skis, etc., by part-time employees (ticket specialists) during the spring and summer months. Two pay stations were in areas outside of the beach area that accept credit cards payments only for parking.

Ticket specialists collected parking fees and recorded the sale in the point-of-sale (POS) system which issued a receipt in duplicate. One copy was given to the customer, and one copy was retained in the ticket specialists' envelope. At the end of the day, the ticket specialist totaled all the duplicate receipts retained in the envelope and summarized the collections on the outside of the envelope. The envelope and supporting receipts were then remitted to the manager. The manager ran a batch report from the POS system that totaled all sales and compared it to the ticket specialists' calculated total collections for the day, which were to agree.

However, ten days of parking receipts were tested and the following discrepancies were noted:

- On two occasions, the ticket specialists' envelope agreed to the POS batch report, but the individual receipt totals did not agree. The variances ranged from an overage of \$10 to a shortage of \$40.
- On two occasions, the names of the Parking Specialists were not indicated as required.
- On one occasion, the POS batch report was a copy and not the original report.
- In one instance, an incorrect parking fee of \$1 was charged. Parking rates start at \$8 for residents.

Leases/Rentals

The Marquette Park Pavilion was available to the public to rent for special occasions such as weddings, reunions, corporate events, etc. The rental fees varied depending on the type of event, space rented within the pavilion, and additional services provided by park personnel. Fees for rentals were supported by a rental agreement between the park and the lessee and a \$500 refundable deposit was required upon signing of the agreement.

PARKS AND RECREATION DEPARTMENT
CITY OF GARY
AUDIT RESULTS AND COMMENTS
(Continued)

The City contracted with an outside catering vendor for events. Customers were required to use this vendor for catering and made catering payments directly to the vendor. Per the contract, "Caterer shall pay (20%) percent of the total pre-taxed billing for all food, non-alcoholic and alcoholic beverage services rendered by Caterer or Caterer's agent at the Pavillion." This 20 percent was to be remitted to the City within five business days after a catered event at the Pavillion.

The following issues were noted in a test of ten facility rentals:

- All events require a \$500 refundable security deposit. Credit card information or checks were collected for the security deposit but were not charged to the credit card or deposited to the bank at the time of collection as required.
- For three events tested, documentation of the 20 percent of the catering sales paid to the City as required per the Professional Services Contract Catering Agreement for Marquette Park was not documented or provided.
- For one event tested, the rental amount was not paid in full prior to the event in accordance with Park policy; the rental was paid in full 88 days after the event.

Park Events - Vendor Contracts

The park department contracts with vendors for supplies and services for events held at Marquette Park. New written contract agreements with vendors were not obtained once the period of the contract expired. Park personnel submitted claims for payment using purchase orders from the previous years' expired contracts.

In a test of four park vendor contracts, payments made in 2024, totaling \$34,556, were made based on three contracts that had expired as of March 31, 2023, or March 31, 2024.

Criteria

Indiana Code 5-13-6-1(d) states in part: "Except as provided in subsection (g), a city . . . or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories: . . ."

Fees can only be collected as specifically authorized by law or properly authorized ordinance/resolution. When a fee is NOT specified by law, but instead through the use of an ordinance/resolution, sufficient authoritative reference should be maintained. (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)

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

City of Gary Parks Department

Board of Commissioners
*Dwight Gardner, President
*Bill Cook, Vice President
*Alan Harrel, Member
*Renee Patterson, Member



Eddie D. Melton
Mayor, City of Gary

Mattiee Fitzgerald-Williams
Director of Parks

OFFICIAL RESPONSE

DATE: APRIL 18, 2025

INDIANA STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON ST. ROOM E418
INDIANAPOLIS, IN 46204-2765

Re: Official Response for the City of Gary Parks Division (Marquette Park and Hudson Campbell)

The City of Gary Parks Department has implemented the following:

- Effective March 1, 2025, the mentioned entities are no longer accepting cash for business transactions.
- Effective January 6, 2025, all financial documents must be submitted to the City of Gary Finance Department by the next business day before noon.
- The City has implemented Park Mobile for all customers to pay for parking while visiting the City of Gary Lakefront. The Marquette Team will no longer be responsible for accepting payments for parking.
- All renters of the Marquette Park Pavilion must pay for their events in full, two weeks before their scheduled event.
- A mandatory monthly report must be completed by the Hudson Campbell and Marquette Park Directors.

The City of Gary will conduct an internal audit for both entities annually.

The following implementations should assist us by not having financial discrepancies at the following entities.

Respectfully,

A handwritten signature in black ink, appearing to read 'Mattiee Fitzgerald-Williams', written over a circular stamp.

Mattiee Fitzgerald
Parks Director

PARKS AND RECREATION DEPARTMENT
CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on April 9, 2025, with M. Celita Green, City Controller; Yvette Williams, Deputy City Controller; Mattiee Fitzgerald, Director of Parks and Recreation; Rev. Dwight Gardner, President of the Board of Parks Commissioners; Renee Patterson, Board of Parks Commissioner; Melissa Aguilar-Prieto, Finance Manager; Mileak Harper, former City Controller; Ellis Dumas III, Chief of Staff; and Linda Barnes-Caldwell, Common Council member.