

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF HAMMOND

LAKE COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
12/12/2016

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	3
Transmittal Letter	4
City Controller:	
Federal Finding:	
Finding 2015-001 - Financial Transactions and Reporting	6-9
Corrective Action Plan	10-12
Audit Results and Comments:	
Overdrawn Cash Balances	13
Disbursements in Excess of Appropriations	13-14
Debt Service Reserve and Sinking Funds	14-15
Regional Development Authority	15
Approval of Claims	16
Preapproved Payment of Claims	16
Credit Cards	16-17
Payroll Deficiencies	17-18
Receipt Forms	19
Exit Conference	20
Water Utility:	
Federal Finding:	
Finding 2015-001 - Financial Transactions and Reporting	22-25
Corrective Action Plan	26
Audit Result and Comment:	
Payroll Deductions	27
Exit Conference	28
Sanitary District:	
Federal Finding:	
Finding 2015-001 - Financial Transactions and Reporting	30-33
Corrective Action Plan	34-35

TABLE OF CONTENTS
(Continued)

<u>Description</u>	<u>Page</u>
Sanitary District (continued):	
Audit Results and Comments:	
Overdrawn Cash Balance	36
Current Payment of Claims	36
Delinquent Wastewater Accounts	36-37
Disbursements in Excess of Appropriations	37
Official Response.....	38-40
Exit Conference	41
Port Authority:	
Federal Finding:	
Finding 2015-001 - Financial Transactions and Reporting	44-47
Corrective Action Plan	48-49
Exit Conference	50
Police Department:	
Audit Results and Comments:	
Payroll Deficiencies.....	52-53
Police Buy Money	53
Exit Conference	54
Fire Department:	
Audit Result and Comment:	
Payroll Deficiencies.....	56
Exit Conference	57
City Clerk:	
Audit Result and Comment:	
Clerk's Trust Items Over Five Years Old and Cash Bonds.....	60-61
Exit Conference	62
City Court:	
Audit Result and Comment:	
Cash Bonds.....	64
Exit Conference	65

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
City Controller	Heather Garay	01-01-15 to 12-31-16
Mayor	Thomas M. McDermott, Jr.	01-01-12 to 12-31-19
City Clerk	Robert J. Golec	01-01-12 to 12-31-19
City Judge	Jeffrey Harkin	01-01-15 to 04-22-16
Judge Pro Tempore	Gerald P. Kray	04-23-16 to 12-31-16
President of the Board of Public Works and Safety	Edward Krusa Stanley J. Dostatni	01-01-15 to 10-28-15 10-29-15 to 12-31-16
President of the Common Council	Michael Opinker Janet Venecz	01-01-15 to 07-28-16 07-29-16 to 12-31-16
President of the Redevelopment Commission	Anthony Hauprich	01-01-15 to 12-31-16
Sanitary District Manager	Marty J. Wielgos	01-01-15 to 12-31-16
Sanitary District Business Manager	Rachel Montes	01-01-15 to 12-31-16
President of the Sanitary District Board of Commissioners	Stanley J. Dostatni Dean Button	01-01-15 to 12-31-15 01-01-16 to 12-31-16
Chief Executive Operator of the Water Utility	Edward Krusa	01-01-15 to 12-31-16
Water Utility Office Manager	Deborah L. Van Meter	01-01-15 to 12-31-16
President of the Utility Service Board	Sharon M. Daniels	01-01-15 to 12-31-16
Director of the Port Authority	Milan A. Kruszynski	01-01-15 to 12-31-16
Chairman of the Port Authority Board of Directors	Scott Rakos Thomas E. Kuhn	01-01-15 to 12-31-15 01-01-16 to 12-31-16
Port Authority Financial Director	Richard A. Szany	01-01-15 to 12-31-16



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

This report is supplemental to our audit report of the City of Hammond (City) for the period from January 1, 2015 to December 31, 2015. It has been provided as a separate report so that the reader may easily identify any Federal Findings and Audit Results and Comments that pertain to the City. It should be read in conjunction with our Financial Statement and Federal Single Audit Report of the City, which provides our opinions on the City's financial statement and federal program compliance. This report may be found at www.in.gov/sboa/.

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

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

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

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

November 3, 2016

CITY CONTROLLER
CITY OF HAMMOND

CITY CONTROLLER
CITY OF HAMMOND
FEDERAL FINDING

FINDING 2015-001 - FINANCIAL TRANSACTIONS AND REPORTING

Condition

There were the following deficiencies in the internal control system of the City related to financial transactions and reporting that constitute material weaknesses:

1. *Lack of Segregation of Duties*: The City had not separated incompatible activities related to receipts and disbursements.

City:

- a. One person in the Controller's office recorded receipts and took the collections to the depository. Another individual prepared deposits and compared the deposit ticket total to a report of the total receipts prepared by the receipt clerk. Audit evidence of this control was not documented.
- b. Employees who entered the payroll information into the financial system also had the ability to adjust the pay rate of employees.
- c. The City contracted with a third-party administrator to process medical claims. The Controller's office recorded the individual vendor payments in the City's ledger and also mailed the checks to the vendors as funds were available in the Self Insurance fund. Supporting documentation was not submitted with the checks prepared by the third-party administrator; therefore, the City did not review the claims for completeness and accuracy. The City had not implemented any other procedures to verify the claims for completeness and accuracy. Additionally, the employee responsible for creating the claim for payment also authorized them using a stamp with the official's name.
- d. The Payroll Clerk generated the withholdings disbursements, reviewed the quarterly withholding reports, and made any necessary changes in the RDS system.

Port Authority:

- e. The employee who created the purchase orders and accounts payable vouchers also authorized them as instructed, using a stamp with the official's name.
- f. Audit evidence was not available to verify that the monthly or year-to-date financial statements, which were prepared by an outside firm, were reviewed for completeness and accuracy.

Sanitary District:

- g. The Accounts Receivable Clerk could adjust bills in the system after they had been recorded.
- h. The Accounts Payable Clerk prepared the checks and recorded the invoices to the accounting system.

CITY CONTROLLER
CITY OF HAMMOND
FEDERAL FINDING
(Continued)

- i. The software system allowed for duplicate check printing and for changes to be made to a check after it had been issued. Checks with duplicate check numbers occurred on a monthly basis.
- j. The Payroll Manager was responsible for the entire payroll process and was able to make payroll rate changes in the computer system. The Sanitary District Manager implemented a procedure to select up to 15 employees each pay period. The payroll records for these selected employees were then audited by an accountant. That audit did not include a verification of the pay distribution to the proper funds and accounts.
- k. The Business Manager prepared the cash amounts for inclusion in the City's financial statement. The amounts provided to the City were not reviewed for completeness and accuracy.

Water Utility:

- l. The Office Manager prepared the cash amounts for inclusion in the City's financial statement. The amounts provided to the City were not reviewed for completeness and accuracy.
2. *Monitoring of Controls:* An evaluation of the City's system of internal control had not been conducted. Additionally, the City had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the City to monitor and assess the quality of the system of internal control.

Cash and investments and bank reconcilements - the City implemented a control over cash and investments and bank reconcilements which did not operate effectively. The control did not detect that the bank reconcilements initially provided for audit did not agree with the City's record balances. The control also did not detect that trust account activity was not reconciled to, or recorded in, the City's records. Management did not obtain the trust statements in order to verify the existence, completeness, or accuracy of the bank reconciliation and many of the trust statements were unaccounted for when initially requested for audit.

3. *Preparing Financial Statement:* Effective internal control over financial reporting involved the identification and analysis of the risks of material misstatement to the City's audited financial statement and then determining how those identified risks should have been managed. The City has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements, including notes to the financial statement. In addition, management of the City has not established a process for final review of the financial statement after compilation.

The City Controller prepared the Annual Financial Report (AFR) and electronically submitted it to the State Board of Accounts. The AFR was the basis for the City's financial statement. The financial statement presented for audit included the following errors:

- 1. The financial statement beginning cash and investment balances did not agree to the prior audit ending cash and investment balances. The beginning balance for the City Clerk Trust Funds of \$1,924,394 was not included.

CITY CONTROLLER
CITY OF HAMMOND
FEDERAL FINDING
(Continued)

2. The financial statement receipts were understated by \$8,279,357 when compared to the records. This was caused by the omission of the receipt activity of trust accounts, errors when computing the regulatory basis receipts from the accrual basis revenues for the Water Utility funds, and other errors.
3. The financial statement disbursements were understated by \$16,843,851 when compared to the records. This was caused by the omission of the disbursement activity of trust accounts, errors when computing the regulatory basis disbursements from the accrual basis expenses for the Water Utility and Sanitary District funds, and other errors.
4. The financial statement ending cash and investment balance did not agree to the records by \$6,640,100. This was caused by the errors and omissions addressed in the above items.

Audit adjustments were proposed, accepted by the City, and made to the financial statement. These adjustments resulted in a presentation of the financial statement that is materially correct.

Criteria

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

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

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

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

Cause

Management of the City had not established a proper system of internal control. Additionally, Management had not monitored the internal control system related to the City's financial reporting and transactions.

CITY CONTROLLER
CITY OF HAMMOND
FEDERAL FINDING
(Continued)

Effect

The failure to establish these controls enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls could have prevented, or detected and corrected, material misstatements in a timely manner.

The financial statement contained the errors identified in the *Condition*.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



Heather Garay, J.D.
Controller

CITY OF HAMMOND

November 2, 2016

CORRECTIVE ACTION PLAN

FINDING 2015-001 – FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action: Heather Garay, City Controller
Contact Phone Number: 219-853-6324

Corrective Action Plan:

1. Lack of Segregation of Duties:

City:

- a. We concur with the finding.

The receipt clerk will record the receipts on the RDS system. Another employee will balance cash and credit card receipts to the system generated report, preparing the deposit. The receipt clerk will verify the deposit amount and take collections to the depository. Each employee will sign the deposit and receipt report verifying accuracy.

Anticipated Completion Date: January 1, 2017

- b. We concur with the finding.

The City's' current payroll software does not allow us to enter set amounts for additional pay beyond overtime. Any other additional pay, such as wellness bonuses, acting pay, etc. must be entered on a weekly basis. Payroll Clerks in the Police, Fire and Public Works departments will continue to have the ability to enter these additional according to the department time sheets. All time sheets or employment records for additional pay must be signed by a department supervisor and copies must be submitted to the Controller's office Payroll Administrator for verification against the payroll forecast. The Payroll Administrator will sign the forecast and documentation indicating the amounts agree. The department payroll clerks will not have the ability to change regular salary amounts within the system.

Anticipated Completion Date: January 1, 2017

City of Hammond
Controller's Office
5925 Calumet Avenue
Hammond, Indiana 46320

219.853.6324
Fax: 219.853.6345
www.gohammond.com

E-mail: garayh@gohammond.com





Heather Garay, J.D.
Controller

CITY OF HAMMOND

- c. We concur with the finding and have taken steps since the last audit to make corrections. Due to the timing of the 2013 and 2014 audits, many corrections were not put in place until after the current audit year.

The City took steps to address a similar finding from the 2013 audit in July of 2015. The third party administrator provides the City with a check register of checks in the batch, claim details for each check and actual checks. The insurance administrator tests 10% of each batch for accuracy. Each tested check is audited against the check register and claim detail for accurate amounts, payee and check number. Copies of the tested checks are maintained with the batch documentation. All checks are totaled and this amount verified against the total noted on the check register. The insurance administrator will now sign a sheet for each test batch that indicates the checks tested and verified. Going forward, the insurance administrator will create a claim for each batch and will attach a copy of the check register to the claim for Council verification. All employee and other personal information will be redacted from this copy of the register. Once approved by Council, the claim will be reviewed and stamped by the accounts payable clerk like all other claims and returned to the insurance administrator to mail out checks.

Anticipated Completion Date: January 1, 2017

- d. We concur with the finding and have taken steps since the last audit to make corrections. Due to the timing of the 2013 and 2014 audits, some corrections were not put in place until after the current audit year.

The City took steps to address a similar finding from the 2013 audit in July of 2015. The Payroll Administrator generates the withholding disbursements. The Deputy Controller prepares the quarterly withholding reports from the financial system. Going forward, any changes needed due to discrepancies between the disbursements and the reports will require review and signature by the Controller.

Anticipated Completion Date: January 1, 2017

2. *Monitoring of Controls:*

- a. We concur with the finding.

Management is in the process of developing and documenting an internal control plan for the City. The control plan will include guidelines for regular monitoring, testing and evaluation of controls to ensure continued effectiveness of controls and address new needs.

Management is working to improve the controls related to Cash and Investments and bank reconcilements. Management will obtain all trust statements and book activity in the system on a monthly basis. Trust information will be provided to the Banking Clerk for reconciliation. All banks will be reconciled to system generated record balances. Copies of record balances will be attached to bank reconcilements for monthly review by management.

Anticipated Completion Date: January 1, 2017

City of Hammond
Controller's Office
5925 Calumet Avenue
Hammond, Indiana 46320

219.853.6324
Fax: 219.853.6345
www.gohammond.com

E-mail: garayh@gohammond.com



Heather Garay, J.D.
Controller

CITY OF HAMMOND

3. Preparing Financial Statements:

- a. We concur in the finding. However, it should be noted that due to the timing of the 2014 audit, audited financials were not available at the original time of reporting.

The City, Water Utility, Sanitary District and Port Authority operate on separate and distinct financial software. Each business manager is responsible for entering financial information on Gateway for their unit. Business managers will be required to provide supporting documentation and explanations of all entries to the Controller for review prior submission. Documentation will include recorded balances for each fund. The Controller will verify that beginning balances for all funds match audited ending balances of prior year. Water Utility will provide the cash summary report prepared for the Board to the Controller for verification of the clearing account. The completed financial report will be reviewed by another member of management for completeness and accuracy. The City is also exploring new financial software options that allow all units to be on the same system.

Anticipated Completion Date: February 1, 2017

(Signature)

Controller

(Title)

11/2/2014

(Date)

City of Hammond
Controller's Office
5925 Calumet Avenue
Hammond, Indiana 46320

219.853.6324
Fax: 219.853.6345
www.gohammond.com

E-mail: garayh@gohammond.com

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The financial statement presented for audit included the following funds with overdrawn cash balances at December 31, 2015:

Fund	Amount Overdrawn
City:	
Park	\$ 549,266
LOIT	425,153
NSP/Neigh Stab	138,919
Woodmar Gateways TIF	11,016
Seatbelt Enforcement	5,163
SEMA Grant	205,697
Jail Processing	30,903
C.D.B.G.	126,788
Afford Housing	272,759
Sanitary District:	
Sewer	69,979
Total	\$ 1,835,643

Similar comments have appeared in several prior Reports.

Funds with overdrawn cash balances as a result of grant expenditures awaiting reimbursement are not included in the list above.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DISBURSEMENTS IN EXCESS OF APPROPRIATIONS

The Park fund recorded expenditures in excess of budgeted appropriations of \$111,323. The budget for 2015 had been reduced by the Department of Local Government Finance due to the negative beginning cash balance in the fund. The Sewer fund reported expenditures in excess of budgeted appropriations of \$43,969.

Similar comments have appeared in several prior Reports.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

Appropriations as stated in the budget, or as modified by additional appropriations, shall constitute the limitation of disbursements. No disbursement shall be made without an appropriation therefore unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

DEBT SERVICE RESERVE AND SINKING FUNDS

The City adopted Bond Ordinance 9277 and had a private placement memorandum concerning the creation of a debt service reserve fund for the 2015 bond issue. However, the City did not comply with its existing ordinance and private placement memorandum as follows:

1. The amount received for the debt service reserve, \$3,650,000 was recorded in the General fund and not in a separate debt service reserve fund.
2. The required sinking fund transfers were accounted for in a bank account which was part of the General fund and not a separate sinking fund account.

The City also sold Economic Development Revenue bonds Series 2015 A in 2105. However, the City did not comply with bond purchase agreement as follows:

1. The Debt Service Reserve (Reserve) Fund required by the bond purchase agreement was not created.
2. The \$170,000 minimum required to be held in the Reserve fund was recorded into City fund 421, Gastevich Bond.
3. The minimum required reserve of \$170,000, per the purchase agreement, could only be disbursed for the payment of principal and interest. As of September 28, 2016, the cash balance of City fund 421, Gastevich Bond, was only \$115,173.

Pursuant to the Loan Agreement, the Bond Bank has established a Debt Service Reserve Fund, which will be held as security for the Bonds and is required to be maintained in the amount of \$3,650,000 (the "Reserve Requirement"). Upon issuance of the Bonds, the Debt Service Reserve Fund will be fully funded in such amount from the proceeds of the Bonds. (Private Placement Memorandum Dated June 17, 2015)

Section 10c of Ordinance 9277 states in part:

"There is hereby created a "2014 Hammond Revenue Bond Debt Service Reserve Fund (the "Debt Service Reserve Fund"). On the date of the delivery of the Bonds, a portion of the proceeds of the Bonds, funds on hand of the City, or a combination thereof shall be deposited in the Debt Service Reserve Fund . . . "

Section 10b of Ordinance 9277 states in part: "There is hereby created a '2014 Hammond Revenue Bond Sinking Fund (the 'Sinking Fund'). There shall be transferred to the Sinking Fund, on or before the last calendar day of the month . . . "

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

(h) Series 2015 Reserve Fund. The Controller of the City shall establish and maintain, so long as any of the Bonds are outstanding, a separate fund to be known as the 'Series 2015 Reserve Fund,' which shall be funded in an amount not less than the One Hundred Seventy Thousand Dollars (\$170,000). On the date of the issuance of the Bonds, the Controller shall deposit, from available TIF Revenues, the amount of One Hundred Seventy Thousand Dollars (\$170,000) to satisfy such requirement. The funds held in the Series 2015 reserve Funds shall be disbursed by the City solely for the payment of interest on and principal of the Bonds, and only in the event that moneys in the Series 2015 Bonds Fund are insufficient to pay principal of and interest on the Bonds as it comes due on an Interest Date. Moneys held in the Series 2015 Reserve Fund shall also be available to pay all or a portion of the principal and interest due on the Maturity Date of the Bonds. (Bond Purchase Agreement Dated August 5, 2015)"

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

REGIONAL DEVELOPMENT AUTHORITY

The City was delinquent in payments to the Regional Development Authority of \$1,750,000 and \$2,625,000 in 2014 and 2015 assessments, respectively, as of December 31, 2015. The 2015 assessments were for the first 3 quarters of 2015. Due to a change in state statute in 2015, the fourth quarter assessment for 2015 and all future assessments will be deducted from the City's Casino tax distributions and paid directly to the Regional Development Authority by the State of Indiana.

Effective through June 30, 2015, Indiana Code 36-7.5-4-2(c) states in part: ". . . each fiscal officer shall transfer eight hundred seventy-five thousand dollars (\$875,333) to the development authority fund before the last business day of January, April, July, and October of each year. . . ."

Effective July 1, 2015, Indiana Code 36-7.5-4-2(d) states in part:

"The obligations of each city . . . under subsection (a) are satisfied by the distributions made by the auditor of state on behalf of each unit under IC 4-33-12-6(d) and IC 4-33-13-5(j). However, if the total amount distributed under IC 4-33 on behalf of a unit with respect to a particular state fiscal year is less than the amount required by subsections (a), the fiscal officer of the unit shall transfer the amount of the shortfall to the authority from any source of revenue available to the unit other than property taxes. The auditor of state shall certify the amount of any shortfall to the fiscal officer of the unit after making the distribution required by IC 4-33-13-5(j) on behalf of the unit with respect to a particular state fiscal year."

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

APPROVAL OF CLAIMS

The Controller paid Senior Rebates claims and claims for payment of employee self-insurance benefits. However, these claims were not approved by the Common Council.

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: . . .

(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. . . ."

PREAPPROVED PAYMENT OF CLAIMS

The City adopted an ordinance allowing certain payments to be made in advance of Council approval. The ordinance required these payments be reviewed and approved at the Council meeting following the payment of the expense.

Payroll claims totaling \$47,698,704 for all of 2015 were paid bi-weekly; however, the claims were not presented to the Council for review and approval until July 13, 2015, September 14, 2015, and November 17, 2015.

Indiana Code 36-4-8-14(d) states: "The city legislative body or the city board having jurisdiction over the allowance of the claim shall review and allow the claim at its next regular or special meeting following the pre-approved payment of the expense."

City Ordinance § 36.006(C) states: "The city legislative body shall review and allow the claim at its next regular or special meeting following the pre-approved payment of the expense."

CREDIT CARDS

Five of the ten credit card claims tested did not have sufficient documentation to support travel related expenditures (meals, gas, hotel, registration, rental car etc.). Within these five claims, there were 16 instances where the business purpose of the travel was not documented or where the amount was paid based on a statement balance instead of supporting documentation.

Of the ten credit card claims tested, eight did not have supporting receipt documentation related to the credit card statements. Within these eight claims there were 20 instances where there was insufficient information to determine if it was a City related purchase or a personal expense and where the amount was paid from the statement only instead of supporting documentation.

Of the ten credit card claims tested, three claims were paid for a purchase that should have been made from the General fund, instead of the Gaming fund, per the Cities Municipal Promotion Ordinance.

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

One claim tested had a purchase of \$862 Citizens satellite wave world watch from a local jewelry store for which there was no supporting documentation.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform compliance Guidelines Manual for Cities and Towns, Chapter 7)

City Code § 37.006 states in part: "(A) The Common Council is authorized to establish as a line item in the budget of public officials and may appropriate funds from the general fund of the city to pay the expenses of or to reimburse city officials for expenses incurred in promoting the best interest of the city."

PAYROLL DEFICIENCIES

Similar comments have appeared in prior Reports.

Payment in Advance

Employee compensation, hours, and leave time were reported by the departmental payroll clerks to the Controller's Office on a bi-weekly "Payroll Earnings Forecast" (forecast). The forecasts were submitted for payroll processing by the Monday or Tuesday prior to the pay date, which was on Friday. Salaried employees were paid for the current and subsequent week and, were therefore, paid in advance up to ten days prior to performing the service. This pay also did not reflect leave time used for the period covered.

Indiana Code 5-7-3-1 states in part: "Public officers may not draw or receive their salaries in advance. . . ."

Salary Ordinance

Compensation was paid in 2015 for the position of crossing guard which was not included on the salary ordinance.

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 statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns Chapter 7)

Leave Policies

The City abided by negotiated union agreements for sick and injured leaves and benefits for police officers and firefighters. Both union agreements were effective for the period of January 1, 2014 through December 31, 2016. Neither agreement contained the details of the leave and benefits policies. We could not determine what the policies entailed; therefore, we could not determine if the City complied with the approved policies.

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

Each governmental unit should adopt written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the governing board would be considered as written policy. The policy should conform to the requirements of all state and federal regulatory agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Employee Service Records

The Fire Department did not maintain employee service records. An attendance record was maintained which was similar to the Employee Service Record (General Form No. 99A), but it did not provide information on leave balances, leave accruals, and leave usage. Leave was also not reported on the "Payroll Earnings Forecast" which was certified by the department head. In addition, overtime hours were not recorded on the attendance record.

The Police Department maintained Employee Service Records (General Form No. 99A); however, overtime hours worked were not reported. Leave time was not reported on the "Payroll Earnings Forecast" which was certified by the department head. Additionally, compensatory leave accruals, usage, and balances were not reported.

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:

General Form 99A, Employees' 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 7)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY CONTROLLER
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

RECEIPT FORMS

The Controller's office used forms for certain sources of collections that were not approved as an alternate form to the prescribed General Receipt Form No. 352.

Counter Receipts

The yellow duplicate copy of the counter receipt was the basis for receipting into the computerized accounting system. Employees stated that these copies documented the review to ensure they were deposited and recorded. However, the 2015 yellow duplicate copies of the counter receipts were not located for audit.

Animal Licenses

The City used an Animal License as the payer's receipt. This form had not been approved as an alternate form for General Receipt Form No. 352. No one ensured that all of the animal licenses were recorded and deposited.

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."

Officials and employees are required to use State Board of Accounts prescribed or approval forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY CONTROLLER
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on November 3, 2016, with Heather Garay, City Controller; Thomas M. McDermott, Jr., Mayor; Janet Venecz, President of the Common Council; Kimberly Fabris, Deputy City Controller; and Mark McLaughlin, Mayor's Chief of Staff.

WATER UTILITY
CITY OF HAMMOND

WATER UTILITY
CITY OF HAMMOND
FEDERAL FINDING

2015-001 - FINANCIAL TRANSACTIONS AND REPORTING

Condition

There were the following deficiencies in the internal control system of the City related to financial transactions and reporting that constitute material weaknesses:

1. *Lack of Segregation of Duties*: The City had not separated incompatible activities related to receipts and disbursements.

City:

- a. One person in the Controller's office recorded receipts and took the collections to the depository. Another individual prepared deposits and compared the deposit ticket total to a report of the total receipts prepared by the receipt clerk. Audit evidence of this control was not documented.
- b. Employees who entered the payroll information into the financial system also had the ability to adjust the pay rate of employees.
- c. The City contracted with a third-party administrator to process medical claims. The Controller's office recorded the individual vendor payments in the City's ledger and also mailed the checks to the vendors as funds were available in the Self Insurance fund. Supporting documentation was not submitted with the checks prepared by the third-party administrator; therefore, the City did not review the claims for completeness and accuracy. The City had not implemented any other procedures to verify the claims for completeness and accuracy. Additionally, the employee responsible for creating the claim for payment also authorized them using a stamp with the official's name.
- d. The Payroll Clerk generated the withholdings disbursements, reviewed the quarterly withholding reports, and made any necessary changes in the RDS system.

Port Authority:

- e. The employee who created the purchase orders and accounts payable vouchers also authorized them as instructed, using a stamp with the official's name.
- f. Audit evidence was not available to verify that the monthly or year-to-date financial statements, which were prepared by an outside firm, were reviewed for completeness and accuracy.

Sanitary District:

- g. The Accounts Receivable Clerk could adjust bills in the system after they had been recorded.
- h. The Accounts Payable Clerk prepared the checks and recorded the invoices to the accounting system.

WATER UTILITY
CITY OF HAMMOND
FEDERAL FINDING
(Continued)

- i. The software system allowed for duplicate check printing and for changes to be made to a check after it had been issued. Checks with duplicate check numbers occurred on a monthly basis.
- j. The Payroll Manager was responsible for the entire payroll process and was able to make payroll rate changes in the computer system. The Sanitary District Manager implemented a procedure to select up to 15 employees each pay period. The payroll records for these selected employees were then audited by an accountant. That audit did not include a verification of the pay distribution to the proper funds and accounts.
- k. The Business Manager prepared the cash amounts for inclusion in the City's financial statement. The amounts provided to the City were not reviewed for completeness and accuracy.

Water Utility:

- l. The Office Manager prepared the cash amounts for inclusion in the City's financial statement. The amounts provided to the City were not reviewed for completeness and accuracy.
2. *Monitoring of Controls:* An evaluation of the City's system of internal control had not been conducted. Additionally, the City had no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the City to monitor and assess the quality of the system of internal control.

Cash and investments and bank reconcilements - the City implemented a control over cash and investments and bank reconcilements which did not operate effectively. The control did not detect that the bank reconcilements initially provided for audit did not agree with the City's record balances. The control also did not detect that trust account activity was not reconciled to, or recorded in, the City's records. Management did not obtain the trust statements in order to verify the existence, completeness, or accuracy of the bank reconciliation and many of the trust statements were unaccounted for when initially requested for audit.

3. *Preparing Financial Statement:* Effective internal control over financial reporting involved the identification and analysis of the risks of material misstatement to the City's audited financial statement and then determining how those identified risks should have been managed. The City has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements, including notes to the financial statement. In addition, management of the City has not established a process for final review of the financial statement after compilation.

The City Controller prepared the Annual Financial Report (AFR) and electronically submitted it to the State Board of Accounts. The AFR was the basis for the City's financial statement. The financial statement presented for audit included the following errors:

- 1. The financial statement beginning cash and investment balances did not agree to the prior audit ending cash and investment balances. The beginning balance for the City Clerk Trust Funds of \$1,924,394 was not included.

WATER UTILITY
CITY OF HAMMOND
FEDERAL FINDING
(Continued)

2. The financial statement receipts were understated by \$8,279,357 when compared to the records. This was caused by the omission of the receipt activity of trust accounts, errors when computing the regulatory basis receipts from the accrual basis revenues for the Water Utility funds, and other errors.
3. The financial statement disbursements were understated by \$16,843,851 when compared to the records. This was caused by the omission of the disbursement activity of trust accounts, errors when computing the regulatory basis disbursements from the accrual basis expenses for the Water Utility and Sanitary District funds, and other errors.
4. The financial statement ending cash and investment balance did not agree to the records by \$6,640,100. This was caused by the errors and omissions addressed in the above items.

Audit adjustments were proposed, accepted by the City, and made to the financial statement. These adjustments resulted in a presentation of the financial statement that is materially correct.

Criteria

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

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

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

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

Cause

Management of the City had not established a proper system of internal control. Additionally, Management had not monitored the internal control system related to the City's financial reporting and transactions.

WATER UTILITY
CITY OF HAMMOND
FEDERAL FINDING
(Continued)

Effect

The failure to establish these controls enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls could have prevented, or detected and corrected, material misstatements in a timely manner.

The financial statement contained the errors identified in the *Condition*.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



Hammond Water Works Department

BUSINESS OFFICE
6505 COLUMBIA AVENUE
HAMMOND, INDIANA 46320-2554
TELEPHONE: (219) 853-6421
FAX: (219) 853-6554

BOARD OF DIRECTORS

Sharon Daniels
Bernard Grisolia
Robert Lendi
Paul Walker
Courtney Saczawa

MAYOR
Thomas M. McDermott, Jr.

CHIEF EXECUTIVE OPERATOR
Edward Krusa

ATTORNEY
Tim Ormes

CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person Responsible for Corrective Action: Deborah L. Van Meter
Contact Phone Number: 219-853-6424

We concur with the findings.

The Water Utility has made some internal changes to aid in reporting of the City Share income, for their wholesale customers.

The Water Utility has entered into an agreement with Cender & Company LLC on need be basis. The Water Utility will submit the City's cash amounts for review and accuracy prior to submitting them to the City for reporting purposes.

Anticipated Completion Date: December 31, 2016

(Signature)

CEO

(Title)

November 7, 2016

(Date)



WATER UTILITY
CITY OF HAMMOND
AUDIT RESULT AND COMMENT

PAYROLL DEDUCTIONS

Two Water Utility employees were paid \$300 monthly vehicle allowances; however, federal, state, and local taxes were not withheld or remitted to the taxing agencies. The monthly vehicle allowance was paid using an accounts payable voucher; therefore, the benefits were not included on the employee's Internal Revenue Service (IRS) Form W-2 - Wage and Tax Statement. The employees were also not issued IRS Form 1099-MISC for the allowance.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines for Cities and Towns, Chapter 7)

WATER UTILITY
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on November 3, 2016, with Heather Garay, City Controller; Thomas M. McDermott, Jr., Mayor; Janet Venecz, President of the Common Council; Kimberly Fabris, Deputy City Controller; Mark McLaughlin, Mayor's Chief of Staff; Deborah L. Van Meter, Water Utility Office Manager; and Sharon M. Daniels, President of the Utility Service Board.

SANITARY DISTRICT
CITY OF HAMMOND

SANITARY DISTRICT
CITY OF HAMMOND
FEDERAL FINDING

2015-001 - FINANCIAL TRANSACTIONS AND REPORTING

Condition

There were the following deficiencies in the internal control system of the City related to financial transactions and reporting that constitute material weaknesses:

1. *Lack of Segregation of Duties*: The City had not separated incompatible activities related to receipts and disbursements.

City:

- a. One person in the Controller's office recorded receipts and took the collections to the depository. Another individual prepared deposits and compared the deposit ticket total to a report of the total receipts prepared by the receipt clerk. Audit evidence of this control was not documented.
- b. Employees who entered the payroll information into the financial system also had the ability to adjust the pay rate of employees.
- c. The City contracted with a third-party administrator to process medical claims. The Controller's office recorded the individual vendor payments in the City's ledger and also mailed the checks to the vendors as funds were available in the Self Insurance fund. Supporting documentation was not submitted with the checks prepared by the third-party administrator; therefore, the City did not review the claims for completeness and accuracy. The City had not implemented any other procedures to verify the claims for completeness and accuracy. Additionally, the employee responsible for creating the claim for payment also authorized them using a stamp with the official's name.
- d. The Payroll Clerk generated the withholdings disbursements, reviewed the quarterly withholding reports, and made any necessary changes in the RDS system.

Port Authority:

- e. The employee who created the purchase orders and accounts payable vouchers also authorized them as instructed, using a stamp with the official's name.
- f. Audit evidence was not available to verify that the monthly or year-to-date financial statements, which were prepared by an outside firm, were reviewed for completeness and accuracy.

Sanitary District:

- g. The Accounts Receivable Clerk could adjust bills in the system after they had been recorded.
- h. The Accounts Payable Clerk prepared the checks and recorded the invoices to the accounting system.

SANITARY DISTRICT
CITY OF HAMMOND
FEDERAL FINDING
(Continued)

- i. The software system allowed for duplicate check printing and for changes to be made to a check after it had been issued. Checks with duplicate check numbers occurred on a monthly basis.
- j. The Payroll Manager was responsible for the entire payroll process and was able to make payroll rate changes in the computer system. The Sanitary District Manager implemented a procedure to select up to 15 employees each pay period. The payroll records for these selected employees were then audited by an accountant. That audit did not include a verification of the pay distribution to the proper funds and accounts.
- k. The Business Manager prepared the cash amounts for inclusion in the City's financial statement. The amounts provided to the City were not reviewed for completeness and accuracy.

Water Utility:

- l. The Office Manager prepared the cash amounts for inclusion in the City's financial statement. The amounts provided to the City were not reviewed for completeness and accuracy.
2. *Monitoring of Controls:* An evaluation of the City's system of internal control has not been conducted. Additionally, the City has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the City to monitor and assess the quality of the system of internal control.

Cash and investments and bank reconcilements - the City implemented a control over cash and investments and bank reconcilements which did not operate effectively. The control did not detect that the bank reconcilements initially provided for audit did not agree with the City's record balances. The control also did not detect that trust account activity was not reconciled to, or recorded in, the City's records. Management did not obtain the trust statements in order to verify the existence, completeness, or accuracy of the bank reconciliation and many of the trust statements were unaccounted for when initially requested for audit.

3. *Preparing Financial Statement:* Effective internal control over financial reporting involved the identification and analysis of the risks of material misstatement to the City's audited financial statement and then determining how those identified risks should have been managed. The City has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements, including notes to the financial statement. In addition, management of the City has not established a process for final review of the financial statement after compilation.

The City Controller prepared the Annual Financial Report (AFR) and electronically submitted it to the State Board of Accounts. The AFR was the basis for the City's financial statement. The financial statement presented for audit included the following errors:

- 1. The financial statement beginning cash and investment balances did not agree to the prior audit ending cash and investment balances. The beginning balance for the City Clerk Trust Funds of \$1,924,394 was not included.

SANITARY DISTRICT
CITY OF HAMMOND
FEDERAL FINDING
(Continued)

2. The financial statement receipts were understated by \$8,279,357 when compared to the records. This was caused by the omission of the receipt activity of trust accounts, errors when computing the regulatory basis receipts from the accrual basis revenues for the Water Utility funds, and other errors.
3. The financial statement disbursements were understated by \$16,843,851 when compared to the records. This was caused by the omission of the disbursement activity of trust accounts, errors when computing the regulatory basis disbursements from the accrual basis expenses for the Water Utility and Sanitary District funds, and other errors.
4. The financial statement ending cash and investment balance did not agree to the records by \$6,640,100. This was caused by the errors and omissions addressed in the above items.

Audit adjustments were proposed, accepted by the City, and made to the financial statement. These adjustments resulted in a presentation of the financial statement that is materially correct.

Criteria

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

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

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

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

Cause

Management of the City had not established a proper system of internal control. Additionally, Management had not monitored the internal control system related to the City's financial reporting and transactions.

SANITARY DISTRICT
CITY OF HAMMOND
FEDERAL FINDING
(Continued)

Effect

The failure to establish these controls enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls could have prevented, or detected and corrected, material misstatements in a timely manner.

The financial statement contained the errors identified in the *Condition*.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

SANITARY DISTRICT of HAMMOND

5143 COLUMBIA AVENUE
HAMMOND, INDIANA 46327-1794
TELEPHONE (219) 853-6413
FAX (219) 853-6321

Board of Sanitary Commissioners

DEAN BUTTON, PE
MICHAEL DYE
MATTHEW J. MUTA
SAM DIMOPOLOS
MICHAEL R. HAWKINS SR.



THOMAS McDERMOTT, JR.
Mayor

MARTY WIELGOS
District Manager

RACHEL MONTES
Business Manager

JOSEPH P. ALLEGRETTI
Legal Counsel

CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person Responsible for Corrective Action: **Rachel Montes**

Contact Phone Number: **219-853-6413 ext. 503**

Views of Responsible Official:

Sanitary District

Item G – Once a bill is entered into the system, no system user can adjust the bill. After approval from the Business Manager, the Accounts Receivable Clerk can enter a credit memo to adjust a bill. Beginning in January 2017, the Business Manager will initial all credit memos to confirm oversight.

Item J – The payroll system generates the general ledger accounts automatically. The payroll system is divided by fund/department and no employee can be paid from a fund/department that does not contain their payroll information.

Description of Corrective Action Plan:

Item G – Beginning in January 2017, the Business Manager will initial all credit memos to confirm oversight.

Item H – Due to the staffing size and budget constraints, the Sanitary District cannot separate the accounts payable duties of recording the invoices and preparing the checks.

Item I – The current accounting software cannot restrict the ability to change the check number when printing checks. The Sanitary District is looking to switch software providers.

Item K – Due to the staffing size and budget constraints, the Sanitary District does not have an employee that reviews the cash amounts that are included in the City's financial statement.

For all the issues defined above, the District will explore testing or review procedures until additional staff can be budgeted.

Anticipated Completion Date: January 2017

Rachel Morth
(Signature)

Business Manager
(Title)

11/3/14
(Date)

SANITARY DISTRICT
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCE

The financial statement presented for audit included the Sewer fund with an overdrawn cash balance of \$69,979.

Similar comments have appeared in prior Reports.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7; Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

CURRENT PAYMENT OF CLAIMS

The Sanitary District was delinquent in the payment of gas and electric services invoices of \$2,216,497 as of December 31, 2015.

Similar comments have appeared in prior Reports.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7; Accounting and Uniform Compliance Guidelines Manual for Special Districts, Chapter 10)

DELINQUENT WASTEWATER ACCOUNTS

Delinquent wastewater fees and penalties were not certified to the County Auditor nor recorded with the County Recorder in 2015.

Similar comments have appeared in prior Reports.

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

". . . 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."

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

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. . . ."

DISBURSEMENTS IN EXCESS OF APPROPRIATIONS

The Sewer fund recorded expenditures in excess of budgeted appropriations of \$43,969.

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

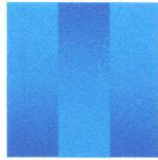
Appropriations as stated in the budget, or as modified by additional appropriations, shall constitute the limitation of disbursements. No disbursement shall be made without an appropriation therefore unless specifically authorized by law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

SANITARY DISTRICT of HAMMOND

5143 COLUMBIA AVENUE
HAMMOND, INDIANA 46327-1794
TELEPHONE (219) 853-6413
FAX (219) 853-6321

Board of Sanitary Commissioners

DEAN BUTTON, PE
MICHAEL DYE
MATTHEW J. MUTA
SAM DIMOPOLOS
MICHAEL R. HAWKINS SR.



THOMAS MCDERMOTT, JR.
Mayor

MARTY WIELGOS
District Manager

RACHEL MONTES
Business Manager

JOSEPH P. ALLEGRETTI
Legal Counsel

November 15, 2016

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

Re: State Board of Accounts Examination and Audit Results and Comments
(Exam Period: January 1, 2014 – December 31, 2015)

Internal Controls Over Financial Statements

Examination Position

The Sanitary District (District) did not have a proper system of internal controls in place to prevent or detect and correct errors in the preparation of the financial statements. The District should have proper controls in place over the preparation of the financial statements, notes to financial statements, and required supplementary information to ensure accurate and reliable reporting of the District's financial activity. In addition, adequate internal control requires sufficient supervision and oversight to ensure complete and accurate financial reporting. Due to lack of internal controls the following material misstatements in the District prepared financial statements were undetected:

Response

The Sanitary District will ensure that internal control standards and procedures are developed and adopted by December 2016. A consultant will be hired to review internal controls, make recommendations to strengthen internal control procedures, and assist with the implementation.

Examination Position

1. In 2014, the District entered into a financing agreement with the Hammond Sanitary District Building Corporation (Building Corporation). The Building Corporation was solely created to provide financing to the District. The District failed to properly report the Building Corporation as a blended component unit in the financial statements and the notes to the financial statements in accordance with Government Accounting Standards. This resulted in the incorrect classification of the debt and an understatement of interest payable for both 2014 and 2015 by \$291,030. In addition, the proper note disclosure defining the blended component unit was not included.

Response

Going forward, the District will include the Building Corporation as a blended component unit in the financial statements and notes to the financial statements.

Examination Position

2. Based upon agreements between the District and customer cities/towns, a set rate is paid for services. Annually, a study is performed to determine if the customer cities/towns have underpaid or overpaid.

Depending on the results of the study, a receivable or payable amount exists. However, an amount was not considered in the financial statements for 2014 and 2015. This resulted in an understatement of Accounts Receivable – Customer Communities and the related revenue by \$910,413 and \$1,099,751 as of December 31, 2014 and 2015, respectively. In addition, in 2015 the District agreed upon a \$350,000 settlement payment for the years 2011 through 2014. The District overstated 2015 revenue by \$319,500 for the amounts that were attributable to 2011 through 2013.

Response

Going forward, the District will post a receivable or payable on the financial statements and ensure that revenue is posted and correctly recorded.

Examination Position

3. In 2015, the county began billing and collecting MS4 Stormwater fees on the property tax bills. The District failed to contact the county to obtain the information needed to calculate an accounts receivable at year end. This resulted in an understatement of the Storm Water Utility accounts receivable and the related revenue by \$253,475 as of December 31, 2015.

Response

Going forward, the District will notify the county to obtain the information needed to calculate an accounts receivable at year end and ensure that a receivable is posted and correctly recorded on the financial statements.

Examination Position

4. The District's Statements of Net Position – Capital Assets sections reported a negative amount in Other Capital Assets for 2014 and 2015, showing the assets were depreciated below their cost. However, it was determined depreciable Land Improvements were incorrectly classified as part of Land and Construction in Progress. This caused the Land and Construction in Progress account to be overstated and Other Capital Assets to be understated by \$177,340,271 and \$177,734,808 in 2014 and 2015, respectively.

Response

Going forward, the District will review the capital assets and ensure they are classified and booked correctly.

Examination Position

5. The Statement of Cash Flows required material adjustments to accurately reflect the cash activity for both years 2014 and 2015.

Response

Going forward, the District will have proper controls in place to provide reasonable assurance that transactions are posted and correctly recorded reducing the number of material adjustments.

Overdrawn Cash Balances

Examination Position

The financial statement in the Financial Statement and Federal Single Audit Report included the Sewer fund with an overdrawn cash balance of \$589,868 and \$69,979 in 2014 and 2015, respectively.

Response

The Sanitary District makes every effort to eliminate overdrawn cash balances. Deficit balances gradually accumulate due to diminished property taxes collections and the circuit breaker credit. The District is reviewing its options to eliminate the overdrawn cash balances.

Current Payment of Claims

Examination Position

The Sanitary District was delinquent in the payment of gas and electric services invoices of \$3,207,429 and \$2,216,497 in 2014 and 2015, respectively.

Response

Examination Position

The Sanitary District was delinquent in the payment of gas and electric services invoices of \$3,207,429 and \$2,216,497 in 2014 and 2015, respectively.

Response

The Sanitary District is currently paying its gas and electric utility bills on time. The District has entered into a repayment plan with the utility vendor for the past due amounts. The District should be current on its utility bills as of July 2017.

Delinquent Wastewater Accounts

Examination Position

Delinquent wastewater fees and penalties had not been certified to the County Auditor nor recorded with the County Recorder in 2014 and 2015.

Response

The District instituted a process to notify the County when wastewater charges are delinquent. Wastewater charges not paid by the due date (approximately __ days after the becoming due) shall be considered delinquent. Such delinquent charges, together with any penalties, shall constitute a lien against the property, shall have a lien filed with the County Auditor and recorded with the County Recorder. Annually, the District will certify the liened delinquencies with the County Auditor.



(Signature)

Rachel Montes, Business Manager

(Title)

November 15, 2016

(Date)



(Signature)

Marty Wielgos, District Manager

(Title)

November 15, 2016

(Date)

SANITARY DISTRICT
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on November 3, 2016, with Heather Garay, City Controller; Thomas M. McDermott, Jr., Mayor; Janet Venecz, President of the Common Council; Kimberly Fabris, Deputy City Controller; Mark McLaughlin, Mayor's Chief of Staff; Marty J. Wielgos, Sanitary District Manager; Rachel Montes, Sanitary District Business Manager; Dean Button, President of the Sanitary District Board of Commissioners; and Joseph Allegretti, Sanitary District Attorney.

(This page intentionally left blank.)

PORT AUTHORITY
CITY OF HAMMOND

PORT AUTHORITY
CITY OF HAMMOND
FEDERAL FINDING

2015-001 - FINANCIAL TRANSACTIONS AND REPORTING

Condition

There were the following deficiencies in the internal control system of the City related to financial transactions and reporting that constitute material weaknesses:

1. *Lack of Segregation of Duties*: The City had not separated incompatible activities related to receipts and disbursements.

City:

- a. One person in the Controller's office recorded receipts and took the collections to the depository. Another individual prepared deposits and compared the deposit ticket total to a report of the total receipts prepared by the receipt clerk. Audit evidence of this control was not documented.
- b. Employees who entered the payroll information into the financial system also had the ability to adjust the pay rate of employees.
- c. The City contracted with a third-party administrator to process medical claims. The Controller's office recorded the individual vendor payments in the City's ledger and also mailed the checks to the vendors as funds were available in the Self Insurance fund. Supporting documentation was not submitted with the checks prepared by the third-party administrator; therefore, the City did not review the claims for completeness and accuracy. The City had not implemented any other procedures to verify the claims for completeness and accuracy. Additionally, the employee responsible for creating the claim for payment also authorized them using a stamp with the official's name.
- d. The Payroll Clerk generated the withholdings disbursements, reviewed the quarterly withholding reports, and made any necessary changes in the RDS system.

Port Authority:

- e. The employee who created the purchase orders and accounts payable vouchers also authorized them as instructed, using a stamp with the official's name.
- f. Audit evidence was not available to verify that the monthly or year-to-date financial statements, which were prepared by an outside firm, were reviewed for completeness and accuracy.

Sanitary District:

- g. The Accounts Receivable Clerk could adjust bills in the system after they had been recorded.
- h. The Accounts Payable Clerk prepared the checks and recorded the invoices to the accounting system.

PORT AUTHORITY
CITY OF HAMMOND
FEDERAL FINDING
(Continued)

- i. The software system allowed for duplicate check printing and for changes to be made to a check after it had been issued. Checks with duplicate check numbers occurred on a monthly basis.
- j. The Payroll Manager was responsible for the entire payroll process and was able to make payroll rate changes in the computer system. The Sanitary District Manager implemented a procedure to select up to 15 employees each pay period. The payroll records for these selected employees were then audited by an accountant. That audit did not include a verification of the pay distribution to the proper funds and accounts.
- k. The Business Manager prepared the cash amounts for inclusion in the City's financial statement. The amounts provided to the City were not reviewed for completeness and accuracy.

Water Utility:

- l. The Office Manager prepared the cash amounts for inclusion in the City's financial statement. The amounts provided to the City were not reviewed for completeness and accuracy.
2. *Monitoring of Controls:* An evaluation of the City's system of internal control has not been conducted. Additionally, the City has no process to identify or communicate corrective actions to improve controls. Effective internal controls over financial reporting required the City to monitor and assess the quality of the system of internal control.

Cash and investments and bank reconcilements - the City implemented a control over cash and investments and bank reconcilements which did not operate effectively. The control did not detect that the bank reconcilements initially provided for audit did not agree with the City's record balances. The control also did not detect that trust account activity was not reconciled to, or recorded in, the City's records. Management did not obtain the trust statements in order to verify the existence, completeness, or accuracy of the bank reconciliation and many of the trust statements were unaccounted for when initially requested for audit.

3. *Preparing Financial Statement:* Effective internal control over financial reporting involved the identification and analysis of the risks of material misstatement to the City's audited financial statement and then determining how those identified risks should have been managed. The City has not identified risks to the preparation of a reliable financial statement and as a result has failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements, including notes to the financial statement. In addition, management of the City has not established a process for final review of the financial statement after compilation.

The City Controller prepared the Annual Financial Report (AFR) and electronically submitted it to the State Board of Accounts. The AFR was the basis for the City's financial statement. The financial statement presented for audit included the following errors:

- 1. The financial statement beginning cash and investment balances did not agree to the prior audit ending cash and investment balances. The beginning balance for the City Clerk Trust Funds of \$1,924,394 was not included.

PORT AUTHORITY
CITY OF HAMMOND
FEDERAL FINDING
(Continued)

2. The financial statement receipts were understated by \$8,279,357 when compared to the records. This was caused by the omission of the receipt activity of trust accounts, errors when computing the regulatory basis receipts from the accrual basis revenues for the Water Utility funds, and other errors.
3. The financial statement disbursements were understated by \$16,843,851 when compared to the records. This was caused by the omission of the disbursement activity of trust accounts, errors when computing the regulatory basis disbursements from the accrual basis expenses for the Water Utility and Sanitary District funds, and other errors.
4. The financial statement ending cash and investment balance did not agree to the records by \$6,640,100. This was caused by the errors and omissions addressed in the above items.

Audit adjustments were proposed, accepted by the City, and made to the financial statement. These adjustments resulted in a presentation of the financial statement that is materially correct.

Criteria

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

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

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

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

Cause

Management of the City had not established a proper system of internal control. Additionally, Management had not monitored the internal control system related to the City's financial reporting and transactions.

PORT AUTHORITY
CITY OF HAMMOND
FEDERAL FINDING
(Continued)

Effect

The failure to establish these controls enabled material misstatements or irregularities to remain undetected. The failure to monitor the internal control system placed the City at risk that controls may not be either designed properly or operating effectively to provide reasonable assurance that controls could have prevented, or detected and corrected, material misstatements in a timely manner.

The financial statement contained the errors identified in the *Condition*.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.



Hammond Port Authority

**Hammond Port Authority
701 Casino Center Drive
Hammond, IN 46320
219-659-7678 • 219-659-7679 (Fax)**

Hammond Marina • Lost Marsh Golf Course • Wolf Lake Memorial Park • Forsythe Park • Lakefront

CORRECTIVE ACTION PLAN

FINDING 2015 – 001f

Richard Szany, Port Authority Finance Director

1-219-659-7678

Views of Responsible Official: I concur with the finding.

Description of Corrective Action Plan:

After month end close, The Finance Director forwards the data to an outside firm to prepare monthly and year-to-date financial statements. The Finance Director will review the financial statements prepared by the outside firm for completeness and accuracy on a monthly basis, initial said statements and file for future audits.

Anticipated Completion Date: June 2016

Richard Szany
(Signature)

FINANCE DIRECTOR
(Title)

11-3-2016
(Date)



Hammond Port Authority

**Hammond Port Authority
701 Casino Center Drive
Hammond, IN 46320
219-659-7678 • 219-659-7679 (Fax)**

Hammond Marina • Lost Marsh Golf Course • Wolf Lake Memorial Park • Forsythe Park • Lakefront

CORRECTIVE ACTION PLAN

FINDING 2015 – 001e

Milan Kruszynski, Hammond Port Authority Director

Richard Szany, Finance Director

1-219-659-7678

Views of Responsible Official: I concur with the finding.

Description of Corrective Action Plan:

After reviewing the purchase orders and account payable vouchers, the Port Authority Director will initial said documents by his signature stamp authorizing payment. In his absence, the Finance Director will review and initial said documents authorizing payment.

Anticipated Completion Date: November 2016

Milan A. Kruszynski
(Signature)

DIRECTOR
(Title)

11-3-2016
(Date)

Richard Szany
(Signature)

FINANCE DIRECTOR
(Title)

11-3-2016
(Date)

PORT AUTHORITY
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on November 3, 2016, with Heather Garay, City Controller; Thomas M. McDermott, Jr., Mayor; Janet Venecz, President of the Common Council; Kimberly Fabris, Deputy City Controller; Mark McLaughlin, Mayor's Chief of Staff; Milan A. Kruszynski, Director of the Port Authority; Thomas E. Kuhn, Chairman of the Port Authority Board of Directors; and Richard A. Szany, Port Authority Financial Director.

POLICE DEPARTMENT
CITY OF HAMMOND

POLICE DEPARTMENT
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS

PAYROLL DEFICIENCIES

Similar comments have appeared in prior Reports.

Leave Policies

The City abided by a negotiated union agreement for sick and injured leaves and benefits for police officers. The union agreement was effective for the period of January 1, 2014 through December 31, 2016. The agreement did not contain the details of the leave and benefits policies. We could not determine what the policies entailed; therefore, we could not determine if the City complied with the approved policies.

Each governmental unit should adopt written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the governing board would be considered as written policy. The policy should conform to the requirements of all state and federal regulatory agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Employee Service Records

The Police Department maintained Employee Service Records (General Form No. 99A); however, overtime hours worked were not reported. Leave time was not reported on the "Payroll Earnings Forecast" which was certified by the department head. Additionally, compensatory leave accruals, usage, and balances were not reported.

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:

General Form 99A, Employees' 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 7)

POLICE DEPARTMENT
CITY OF HAMMOND
AUDIT RESULTS AND COMMENTS
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

POLICE BUY MONEY

The Department established a Buy Money Program without an ordinance, adopted by the Common Council, allowing for the associated expenditures.

The following procedures should be followed if a municipality wishes to obtain an appropriation and make expenditures for buy money or payments to informants:

1. under Indiana Code 36-1-3 an ordinance should be passed allowing this type of program and associated expenditures;
2. an appropriation for such purpose must be obtained in the manner authorized by state statutes;
3. petty cash fund procedures are to be followed as authorized by Indiana Code 36-1-8-3; and
4. a minimum documentation procedure must be followed, similar to either:
 - A. "Office of Criminal Justice Programs 2009 Financial Guide, Part III, Chapter 8: Confidential Funds," published by the U.S. Department of Criminal Justice.
 - B. "Guidelines for Obtaining and Accounting For Confidential Funds Used in Support of Criminal Investigations," (Revised S.O.P. INV-017), by the Indiana State Police Department.

(Cities and Towns Bulletin and Uniform Compliance Guidelines, June 2016)

POLICE DEPARTMENT
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on November 3, 2016, with Heather Garay, City Controller; Thomas M. McDermott, Jr., Mayor; Janet Venecz, President of the Common Council; Kimberly Fabris, Deputy City Controller; Mark McLaughlin, Mayor's Chief of Staff; and William A. Short, Assistant Police Chief.

FIRE DEPARTMENT
CITY OF HAMMOND

FIRE DEPARTMENT
CITY OF HAMMOND
AUDIT RESULT AND COMMENT

PAYROLL DEFICIENCIES

Leave Policies

The City abided by a negotiated union agreement for sick and injured leaves and benefits for firefighters. The union agreement was effective for the period of January 1, 2014 through December 31, 2016. The agreement did not contain the details of the leave and benefits policies. We could not determine what the policies entailed; therefore, we could not determine if the City complied with the approved policies.

Each governmental unit should adopt written policy regarding the accrual and use of leave time and compensatory time and the payment of overtime. Negotiated labor contracts approved by the governing board would be considered as written policy. The policy should conform to the requirements of all state and federal regulatory agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Employee Service Records

The Fire Department did not maintain employee service records. An attendance record was maintained which is similar to the Employee Service Record (General Form No. 99A), but it did not provide information on leave balances, leave accruals, and leave usage. Leave was also not reported on the "Payroll Earnings Forecast" which was certified by the department head. In addition, overtime hours were not recorded on the attendance record.

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:

General Form 99A, Employees' 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 7)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FIRE DEPARTMENT
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on November 3, 2016, with Heather Garay, City Controller; Thomas M. McDermott, Jr., Mayor; Janet Venecz, President of the Common Council; Kimberly Fabris, Deputy City Controller; Mark McLaughlin, Mayor's Chief of Staff; Jeffery Smith, Fire Chief; and Kevin Margraf, Deputy Fire Chief.

(This page intentionally left blank.)

CITY CLERK
CITY OF HAMMOND

CITY CLERK
CITY OF HAMMOND
AUDIT RESULT AND COMMENT

CLERK'S TRUST ITEMS OVER FIVE YEARS OLD AND CASH BONDS

As stated in several prior Reports, the City Clerk's trust register included money held in excess of five years. The detail trust listing included entries dating back to the 1980's and, of the \$1,663,091 year-end balance, \$627,993 was determined to be held in excess of five years. These amounts in excess of five years included both trust items and cash bonds.

The trust funds were not remitted to the Attorney General's office as unclaimed property in accordance with the state statute. The City Clerk had not implemented policies and procedures for reporting unclaimed property and remitting that property to the Attorney General after the five year holding period.

Individuals who were arrested were required to pay a cash bail bond to the City Court in order to be released and to ensure their appearance at the appropriate legal proceedings. The older bonds had not been declared forfeited or transferred to the State Common School Fund in accordance with State statute.

Indiana Code 32-34-1-20(c) states in part:

"Property that is held, issued, or owed in the ordinary course of a holder's business is presumed abandoned if the owner or apparent owner has not communicated in writing with the holder concerning the property or has not otherwise given an indication of interest in the property during the following times: . . .

- (6) For property or proceeds held by a court or a court clerk, five (5) years after the property or proceeds become distributable. The property or proceeds must be treated as unclaimed property under IC 32-34-3."

Indiana Code 32-34-1-26(a) states: "A holder of property that is presumed abandoned and that is subject to custody as unclaimed property under this chapter shall report in writing to the attorney general concerning the property. Items of value of less than fifty dollars (\$50) may be reported by the holder in the aggregate."

CITY CLERK
CITY OF HAMMOND
AUDIT RESULT AND COMMENT
(Continued)

Indiana Code 32-34-1-27(a) states: "Except as provided in subsections (b) and (c), on the date a report is filed under section 26 of this chapter, the holder shall pay or deliver to the attorney general the property that is described in the report as unclaimed."

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

"(a) If a defendant:

- (1) was admitted to bail under section 3.2(a)(2) of this chapter; and
- (2) has failed to appear before the court as ordered; the court shall, except as provided in subsection (b) or section 8(b) of this chapter, declare the bond forfeited not earlier than one hundred twenty (120) days after the defendant's failure to appear and issue a warrant for the defendant's arrest. . . ."

Indiana Code 35-33-8-7(d) states:

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

Indiana Code 35-33-8-7(e) states:

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

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

CITY CLERK
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on October 27, 2016, with Robert J. Golec, City Clerk; Susan D. Dimopoulos, Chief Deputy City Clerk; and Jennifer Banas, Staff Accountant.

The contents of this report were discussed on November 3, 2016, with Heather Garay, City Controller; Thomas M. McDermott, Jr., Mayor; Robert J. Golec, City Clerk; Janet Venecz, President of the Common Council; Kimberly Fabris, Deputy City Controller; and Mark McLaughlin, Mayor's Chief of Staff.

CITY COURT
CITY OF HAMMOND

CITY COURT
CITY OF HAMMOND
AUDIT RESULT AND COMMENT

CASH BONDS

As stated in several prior Reports, the City Clerk's trust register included money held in excess of five years. The detail trust listing included entries dating back to the 1980's and, of the \$1,663,090 year-end balance, \$627,993 was determined to be held in excess of five years. These amounts in excess of five years included both trust items and cash bonds.

Individuals who were arrested were required to pay a cash bail bond to the City Court in order to be released and to ensure their appearance at the appropriate legal proceedings. The older bonds had not been declared forfeited or transferred to the State Common School Fund in accordance with State statute.

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

"(a) If a defendant:

- (1) was admitted to bail under section 3.2(a)(2) of this chapter; and
- (2) has failed to appear before the court as ordered; the court shall, except as provided in subsection (b) or section 8(b) of this chapter, declare the bond forfeited not earlier than one hundred twenty (120) days after the defendant's failure to appear and issue a warrant for the defendant's arrest. . . ."

Indiana Code 35-33-8-7(d) states:

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

Indiana Code 35-33-8-7(e) states:

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

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

CITY COURT
CITY OF HAMMOND
EXIT CONFERENCE

The contents of this report were discussed on October 27, 2016, with Gerald P. Kray, Judge Pro Tempore.

The contents of this report were discussed on November 3, 2016, with Heather Garay, City Controller; Thomas M. McDermott, Jr., Mayor; Janet Venecz, President of the Common Council; Kimberly Fabris, Deputy City Controller; and Mark McLaughlin, Mayor's Chief of Staff.