

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF MICHIGAN CITY

LAPORTE COUNTY, INDIANA

January 1, 2015 to December 31, 2015



**FILED**  
12/30/2016



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### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Mayor	Ron Meer	01-01-12 to 12-31-19
Controller	Donna Pappas Yvonne Hoffmaster (interim) Stephen Janus (interim) Richard Murphy	01-01-15 to 01-16-15 01-17-15 to 01-25-15 01-26-15 to 12-31-15 01-01-16 to 12-31-16
President of the Board of Public Works and Safety	Stephen Janus	01-01-15 to 12-31-16
President of the Common Council	Chris Schwanke Timothy Bietry	01-01-15 to 12-31-15 01-01-16 to 12-31-16
Superintendent of Water Utility	Randall E. Russell	01-01-15 to 12-31-16
Sanitary District Manager	Michael Kuss	01-01-15 to 12-31-16



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE CITY OF MICHIGAN CITY, LAPORTE COUNTY, INDIANA

This report is supplemental to our audit report of the City of Michigan City (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/](http://www.in.gov/sboa/).

The Federal Findings, identified in the above referenced audit report, are 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 Findings 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

December 6, 2016

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CONTROLLER  
CITY OF MICHIGAN CITY

CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS

***FINDING 2015-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING***

*Condition*

There were several deficiencies in the internal control system of the City related to financial transactions and reporting.

1. Lack of Segregation of Duties: The City had not separated incompatible activities related to the processing of disbursements.
  - a. Journal entries for disbursements withdrawn from the City's bank accounts as electronic funds transfers were created and recorded in the ledger by the Controller's office personnel. Claims were not prepared for these journal entries, nor were they included on a Claim Docket, and, therefore, were not approved by the governing body.
  - b. Department Heads were not required to submit time records; however, if they did submit time records, their time was not substantiated or approved.
2. Preparing Financial Statements: The City had not identified risks to the preparation of a reliable financial statement and as a result failed to design effective controls over the preparation of the financial statement to prevent or detect material misstatements, including notes to the financial statement and the Schedule of Federal Expenditures. In addition, management of the City had not established a process for final review of the financial statement after compilation.

*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)

*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.

*Effect*

The failure to establish controls could have 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 would have prevented, or detected and corrected, material misstatements in a timely manner.

CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

*Views of Responsible Officials*

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

***FINDING 2015-004 - CASH MANAGEMENT, MATCHING, PROGRAM INCOME, AND REPORTING***

Federal Agency: Department of Transportation

Federal Program: Federal Transit Cluster

CFDA Number: 20.507

Federal Award Number and Year (or Other Identifying Number): IN-90-4672, IN-95-0045, IN-95-0052

This is partially a repeat of Finding 2014-006 from the immediate prior year.

*Condition*

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Cash Management, Matching, Program Income, and Reporting.

*Cash Management and Reporting*

One individual was responsible for preparing and submitting required reports on the Federal Transit Administration website. Officials stated that reports were reviewed prior to submission; however, evidence of a review or oversight process to ensure that reports were accurate, complete, and in compliance with the Cash Management and Reporting requirements was not provided.

*Matching*

One individual was responsible for calculating the amount of local match. There was no evidence of review of this calculation or a review to ensure that funds were drawn at the correct match percentage.

*Program Income*

Although multiple people were involved in the process for the collection of program income, there was no review or assurance that program income was accurately recorded in the ledger.

*Context*

The City had a lack of internal controls throughout the audit period.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

CONTROLLER  
CITY OF MICHIGAN CITY  
FEDERAL FINDINGS  
(Continued)

*Cause*

Management did not develop a system of internal controls that segregated key functions.

*Effect*

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

*Views of Responsible Officials*

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



# MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

## CORRECTIVE ACTION PLAN

### **FINDING 2015-001** (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Richard Murphy  
Contact Phone Number: (219) 873-1404

Views of Responsible Official: The controller's office understands the comment and will implement the corrective action plan to resolve the issue.

### Description of Corrective Action Plan:

1. (a) Electronic disbursements will be added to the claims dockets. They will be approved by the Board of Public Works and Safety regularly scheduled meetings.  
(b) The current policy will be updated for Department Heads and other Salaried Exempt employees to keep time sheets, electronically through the time and attendance program or manually. The electronic or manual time sheets will be signed off by the Mayor or his designee.
2. Bank reconcilements will continue to be completed on a consistent basis. Once the reconcilements are completed, they will be reviewed by the Controller or Assistant Controller and initialed. The documents will then be filed with the other monthly documents.
3. An evaluation will be performed and a process will be created to assist in identifying and/or correcting any deficiencies that could improve the internal controls.

### Anticipated Completion Date:

Items 1 (a) and 2 were implemented as of November 2015. Item 1 (b) will be implemented immediately. Item 3 is being addressed in the legislative mandated internal controls policy and procedures and will be implemented by the end of fiscal year 2016.

  
(Signature)

City Controller  
(Title)

December 2, 2016  
(Date)

RON MEER – MAYOR



# MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

## CORRECTIVE ACTION PLAN

**FINDING 2015-004** (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Richard Murphy  
Contact Phone Number: (210) 873-1404

Views of Responsible Official: The controller's office understands the comment and will implement the corrective action plan to resolve the issue.

Description of Corrective Action Plan:

The procedure utilized for the preparation and submitting of grant reimbursements for MC Transit will be updated to include a signature from the Assistant Controller and the Transit Director. The signatures will verify the accuracy of the numbers prepared and submitted.

Anticipated Completion Date:

This procedure was implemented with the 4<sup>th</sup> Quarter reporting in January 2016.

  
(Signature)

City Controller \_\_\_\_\_  
(Title)

December 1, 2016 \_\_\_\_\_  
(Date)

RON MEER – MAYOR

City of Michigan City ~ City Hall ~ 100 East Michigan Boulevard, Michigan City, IN 46360 ~ 219.873.1400 ~ fax 219.873.1515  
web ~ emichigancity.com e-mail ~ mayormeer@emichigancity.com

CONTROLLER  
CITY OF MICHIGAN CITY  
AUDIT RESULT AND COMMENT

**TRAVEL CLAIMS**

A review of five travel claims revealed that three were not paid in accordance with the City's travel policy. In the first two instances, the claims did not state when the employee began or ended their travel status; therefore, it could not be determined if the individuals were entitled to be reimbursed for meals either before or after meetings they attended. In the third instance, the claim was paid in excess of the amount allowed per the City's travel policy. The claim form stated the dates that the employee was in travel status and the rates for per diem were printed at the bottom of the form. This person was paid for a 24-hour day of per diem (\$50) on the first day even though they departed at 1:30 pm. Per the City's policy, the employee who begins his/her travel after 8:00 am should receive \$25 per diem for the first day of travel.

The City of Michigan City adopted Ordinance 4162 concerning Travel Rules, Regulations, and Reimbursements for municipal employees and officials.

The ordinance states:

"Sec. 2-118 (d):

1. Overnight travel:

a. If an employee travels on City business and is authorized to stay overnight, the employee will be paid a per diem allowance for meals and incidental expenses. No receipts are required to substantiate the per diem allowance. The per diem rate is \$50 per 24-hour day. The rate for the beginning and ending days of the employee's travel will be pro-rated by one-half days as follows:

1. If the employee begins his travel (leaves home or work) before 8:00 am, he will receive \$50 for the day that the travel begins.
2. If the employee begins his travel (leaves home or work) after 8:00 a.m., he will receive \$25 for the day that the travel begins.
3. If the employee ends his travel (returns to home or work) before 12:00 noon, he will receive \$25.00 for the day that the travel ends.

CONTROLLER  
CITY OF MICHIGAN CITY  
AUDIT RESULT AND COMMENT  
(Continued)

4. If the employee ends his travel (returns to home or work) after 12:00 noon, he will receive \$50 for the day that the travel ends.

b. If a meal is provided to the employee as part of the conference/training session (included in the registration fee), the per diem allowance will be reduced by \$10 for each meal provided.

2. Day Travel:

a. If an employee travels more than 15 miles from the City's boundaries on authorized City business, and that travel requires him to be away from the City for at least six (6) hours, but not overnight (day conference, seminar, etc.), no per diem allowance will be provided. Rather, the employee will be reimbursed for the actual cost of one meal to a maximum of \$15. In the case of day travel, the employee must provide an itemized receipt from the restaurant to document the cost of the meal. If no receipt is provided, the employee will not be reimbursed for the meal."

Claims for reimbursement of meals and incidental expenses, whether the per diem allowance applies (overnight travel) or whether the reimbursement of actual cost applies (daily travel) shall be submitted on forms approved by the Indiana State Board of Accounts and, when applicable, shall be accompanied by itemized receipts.

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)

CONTROLLER  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

The contents of this report were discussed on December 6, 2016, with Richard Murphy, Controller; Yvonne Hoffmaster, Deputy Controller; Timothy Bietry, President of the Common Council; Amber Lapaich-Stalbrink, Corporation Counsel; and Ron Meer, Mayor.

The contents of this report were discussed on December 13, 2016, with Stephen Janus, former Interim Controller.

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PORT AUTHORITY  
CITY OF MICHIGAN CITY

PORT AUTHORITY  
CITY OF MICHIGAN CITY  
FEDERAL FINDING

***FINDING 2015-002 - SUSPENSION AND DEBARMENT***

Federal Agency: Department of the Interior  
Federal Program: Fish and Wildlife Cluster  
CFDA Number: 15.605  
Federal Award Number and Year (or Other Identifying Number): F14AF00052  
Pass-Through Entity: Indiana Department of Natural Resources

*Condition*

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Suspension and Debarment compliance requirement.

The City had not designed or implemented internal control procedures to ensure compliance with the Suspension and Debarment requirements of the program. There was no segregation of duties, such as an oversight, review, or approval process to ensure compliance with applicable local, state, and federal laws regarding these requirements.

*Context*

The City had a lack of internal controls throughout the audit period.

*Compliance*

The City did not comply with the Suspension and Debarment requirements of this program. The City paid a contractor \$544,500 with federal funds in 2015, but did not verify whether or not the contractor was suspended or debarred.

*Criteria*

2 CFR section 200.303 states in part:

"The non-Federal entity must: (a) Establish and maintain effective internal control over Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

PORT AUTHORITY  
CITY OF MICHIGAN CITY  
FEDERAL FINDING  
(Continued)

2 CFR 180.300 states:

"When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking SAM Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person."

*Cause*

Management had not developed a system of internal controls that segregated key functions.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected. Noncompliance with the grant agreement or the compliance requirement could have resulted in the loss of federal funds to the City.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls to ensure compliance and to comply with the Suspension and Debarment requirements of the program.

*Views of Responsible Officials*

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



# MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

## CORRECTIVE ACTION PLAN

### **FINDING 2015-002** (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Richard Murphy  
Contact Phone Number: (219) 873-1404

Views of Responsible Official: The controller's office understands the comment and will implement the corrective action plan to resolve the issue.

### Description of Corrective Action Plan:

The City will pass along to the Port Authority its policies and procedures on awarding bids including the suspension and debarment compliance requirements applicable to federal grants.

### Anticipated Completion Date:

These policies and procedures will be forwarded to the Port Authority by the end of fiscal year 2016.

A handwritten signature in blue ink, appearing to read "Richard Murphy", is written over a horizontal line.

(Signature)

City Controller

(Title)

December 1, 2016

(Date)

RON MEER – MAYOR

City of Michigan City ~ City Hall ~ 100 East Michigan Boulevard, Michigan City, IN 46360 ~ 219.873.1400 ~ fax 219.873.1515  
web ~ emichigancity.com e-mail ~ mayormeer@emichigancity.com

PORT AUTHORITY  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

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COMMON COUNCIL  
CITY OF MICHIGAN CITY

COMMON COUNCIL  
CITY OF MICHIGAN CITY  
AUDIT RESULT AND COMMENT

***COMPENSATION - CEMETERY SUPERINTENDENT***

Compensation and benefits were paid to the Cemetery Superintendent that were not included in the payroll system or on the salary ordinance. The Cemetery Superintendent received \$48,791 as authorized by the Common Council through the Salary Ordinance for 2015. In addition to this compensation, the Superintendent received \$ 27,379 in commissions based on sales at the Cemetery. This additional compensation was not accounted for through the City's payroll system or included on the salary ordinance, but was reported on a Form 1099 - Misc, Miscellaneous Income.

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)

COMMON COUNCIL  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

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CEMETERY  
CITY OF MICHIGAN CITY

CEMETERY  
CITY OF MICHIGAN CITY  
AUDIT RESULT AND COMMENT

***COMPENSATION - CEMETERY SUPERINTENDENT***

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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)

CEMETERY  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

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The contents of this report were discussed on December 13, 2016, with Stephen Janus, former Interim Controller.

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BOARD OF PUBLIC WORKS AND SAFETY  
CITY OF MICHIGAN CITY

BOARD OF PUBLIC WORKS AND SAFETY  
CITY OF MICHIGAN CITY  
FEDERAL FINDING

***FINDING 2015-003 - PROCUREMENT AND SUSPENSION AND DEBARMENT***

Federal Agency: Department of Transportation

Federal Program: Federal Transit Cluster

CFDA Number: 20.507

Federal Award Number and Year (or Other Identifying Number): IN-90-4672, IN-95-0045, IN-95-0052

This is a repeat of Finding 2014-005 from the immediate prior year.

*Condition*

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirements.

The City did not design or implement internal control procedures to ensure compliance with the Procurement and Suspension and Debarment requirements of the program. There was no segregation of duties, such as an oversight, review, or approval process to ensure compliance with applicable local, state, and federal laws regarding these requirements.

*Context*

The City had a lack of internal controls throughout the audit period.

*Compliance*

The City did not establish proper procedures for the procurement of diesel and unleaded fuel. During 2015, the City procured \$474,080 of diesel and unleaded fuel from local vendors. The purchases were in batches, occurred approximately every three weeks, and were made without the approval of the City Board of Public Works and Safety. The City did not enter into a written contract with the local vendors from which they procured fuel. In addition, the City did not determine if the local vendors had been suspended or debarred from participation in federal programs.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

49 CFR 18.36(b)(1) states in part:

"Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section."

BOARD OF PUBLIC WORKS AND SAFETY  
CITY OF MICHIGAN CITY  
FEDERAL FINDING  
(Continued)

Indiana Code 5-22-17-10 states:

"(a) As used in this section, 'petroleum products' includes the following:

- (1) Gasoline.
- (2) Fuel oils.
- (3) Lubricants.
- (4) Liquid asphalt.

(b) A purchasing agent may award a contract for petroleum products to:

- (1) the lowest responsible and responsive offeror; or
- (2) all responsible and responsive offerors.

(c) A contract entered into under this section may allow for the escalation or de-escalation of price.

(d) This subsection applies to a petroleum products contract that is awarded to all responsible and responsive offerors as provided in subsection (b). The purchasing agent must purchase the petroleum products from the lowest of the responsible and responsive bidders. The contract must provide that the bidder from whom petroleum products are being purchased shall provide five (5) business days written notice of any change in price. Upon receipt of written notice, the purchasing agent shall request current price quotes in writing based upon terms and conditions of the original offer (as awarded) from all successful responsible and responsive offerors. The purchasing agent shall record the quotes in minutes or memoranda. The purchasing agent shall purchase the petroleum products from the lowest responsible and responsive offeror, taking into account the price change of the current supplier and the price quotes of the other responsible and responsive offerors."

49 CFR 18.35 states:

"Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, 'Debarment and Suspension.'"

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 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."

BOARD OF PUBLIC WORKS AND SAFETY  
CITY OF MICHIGAN CITY  
FEDERAL FINDING  
(Continued)

*Cause*

Management had not developed a system of internal controls that segregated key functions.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could have resulted in the loss of federal funds to the City.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls to ensure compliance and to comply with the Procurement and Suspension and Debarment requirements of the program.

*Views of Responsible Officials*

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



# MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

## CORRECTIVE ACTION PLAN

### **FINDING 2015-003** (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Richard Murphy  
Contact Phone Number: (219) 873-1404

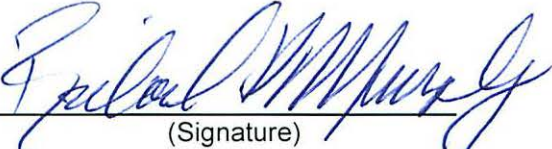
Views of Responsible Official: The controller's office understands the comment and will implement the corrective action plan to resolve the issue.

### Description of Corrective Action Plan:

A policy and procedure will be developed for the procurement of diesel fuel and unleaded gasoline. The procedure will outline the process of purchasing the fuel. The policy will include the procedure for purchasing as well as the determination if the vendors have been suspended or debarred from participation in federal programs. This policy will be approved by the Board of Public Works and Safety at the beginning each year.

### Anticipated Completion Date:

This policy and procedure was passed by Resolution 2809 on March 21, 2016.

  
(Signature)

City Controller \_\_\_\_\_  
(Title)

December 1, 2016 \_\_\_\_\_  
(Date)

RON MEER – MAYOR

City of Michigan City ~ City Hall ~ 100 East Michigan Boulevard, Michigan City, IN 46360 ~ 219.873.1400 ~ fax 219.873.1515  
web ~ emichigancity.com e-mail ~ mayormeer@emichigancity.com

BOARD OF PUBLIC WORKS AND SAFETY  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

The contents of this report were discussed on December 6, 2016, with Richard Murphy, Controller; Yvonne Hoffmaster, Deputy Controller; Timothy Bietry, President of the Common Council; Amber Lapaich-Stalbrink, Corporation Counsel; and Ron Meer, Mayor.

The contents of this report were discussed on December 13, 2016, with Stephen Janus, former Interim Controller.

TRANSIT  
CITY OF MICHIGAN CITY

TRANSIT  
CITY OF MICHIGAN CITY  
FEDERAL FINDING

***FINDING 2015-004 - CASH MANAGEMENT, MATCHING, PROGRAM INCOME, AND REPORTING***

Federal Agency: Department of Transportation

Federal Program: Federal Transit Cluster

CFDA Number: 20.507

Federal Award Number and Year (or Other Identifying Number): IN-90-4672, IN-95-0045, IN-95-0052

This is partially a repeat of Finding 2014-006 from the immediate prior year.

*Condition*

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Cash Management, Matching, Program Income, and Reporting.

*Cash Management and Reporting*

One individual was responsible for preparing and submitting required reports on the Federal Transit Administration website. Officials stated that reports were reviewed prior to submission; however, evidence of a review or oversight process to ensure that reports were accurate, complete, and in compliance with the Cash Management and Reporting requirements was not provided.

*Matching*

One individual was responsible for calculating the amount of local match. There was no evidence of review of this calculation or a review to ensure that funds were drawn at the correct match percentage.

*Program Income*

Multiple people were involved in the process for the collection of program income; however, there was no review or assurance that program income was accurately recorded in the ledger.

*Context*

The City had a lack of internal controls throughout the audit period.

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FEDERAL FINDING  
(Continued)

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

*Cause*

Management had not developed a system of internal controls that segregated key functions.

*Effect*

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

*Views of Responsible Officials*

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



# MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

## CORRECTIVE ACTION PLAN

**FINDING 2015-004** (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Richard Murphy  
Contact Phone Number: (210) 873-1404

Views of Responsible Official: The controller's office understands the comment and will implement the corrective action plan to resolve the issue.

Description of Corrective Action Plan:

The procedure utilized for the preparation and submitting of grant reimbursements for MC Transit will be updated to include a signature from the Assistant Controller and the Transit Director. The signatures will verify the accuracy of the numbers prepared and submitted.

Anticipated Completion Date:

This procedure was implemented with the 4<sup>th</sup> Quarter reporting in January 2016.

  
(Signature)

City Controller \_\_\_\_\_  
(Title)

December 1, 2016 \_\_\_\_\_  
(Date)

RON MEER – MAYOR

City of Michigan City ~ City Hall ~ 100 East Michigan Boulevard, Michigan City, IN 46360 ~ 219.873.1400 ~ fax 219.873.1515  
web ~ emichigancity.com e-mail ~ mayormeer@emichigancity.com

TRANSIT  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

The contents of this report were discussed on December 6, 2016, with Richard Murphy, Controller; Yvonne Hoffmaster, Deputy Controller; Timothy Bietry, President of the Common Council; Amber Lapaich-Stalbrink, Corporation Counsel; and Ron Meer, Mayor.

The contents of this report were discussed on December 13, 2016, with Stephen Janus, former Interim Controller.

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CENTRAL SERVICES  
CITY OF MICHIGAN CITY

CENTRAL SERVICES  
CITY OF MICHIGAN CITY  
FEDERAL FINDING

***FINDING 2015-003 - PROCUREMENT AND SUSPENSION AND DEBARMENT***

Federal Agency: Department of Transportation

Federal Program: Federal Transit Cluster

CFDA Number: 20.507

Federal Award Number and Year (or Other Identifying Number): IN-90-4672, IN-95-0045, IN-95-0052

This is a repeat of Finding 2014-005 from the immediate prior year.

*Condition*

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Procurement and Suspension and Debarment compliance requirements.

The City did not design or implement internal control procedures to ensure compliance with the Procurement and Suspension and Debarment requirements of the program. There was no segregation of duties, such as an oversight, review, or approval process to ensure compliance with applicable local, state, and federal laws regarding these requirements.

*Context*

The City had a lack of internal controls throughout the audit period.

*Compliance*

The City did not establish proper procedures for the procurement of diesel and unleaded fuel. During 2015, the City procured \$474,080 of diesel and unleaded fuel from local vendors. The purchases were in batches approximately every three weeks and were made without the approval of the City Board of Public Works and Safety. The City did not enter into a written contract with these local vendors from which they procured fuel. In addition, the City did not determine if the local vendors had been suspended or debarred from participation in federal programs.

*Criteria*

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. . . ."

49 CFR 18.36 (b) states in part:

"*Procurement standards.* (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section . . ."

CENTRAL SERVICES  
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(Continued)

Indiana Code 5-22-17-10 states:

"(a) As used in this section, 'petroleum products' includes the following:

- (1) Gasoline.
- (2) Fuel oils.
- (3) Lubricants.
- (4) Liquid asphalt.

(b) A purchasing agent may award a contract for petroleum products to:

- (1) the lowest responsible and responsive offeror; or
- (2) all responsible and responsive offerors.

(c) A contract entered into under this section may allow for the escalation or de-escalation of price.

(d) This subsection applies to a petroleum products contract that is awarded to all responsible and responsive offerors as provided in subsection (b). The purchasing agent must purchase the petroleum products from the lowest of the responsible and responsive bidders. The contract must provide that the bidder from whom petroleum products are being purchased shall provide five (5) business days written notice of any change in price. Upon receipt of written notice, the purchasing agent shall request current price quotes in writing based upon terms and conditions of the original offer (as awarded) from all successful responsible and responsive offerors. The purchasing agent shall record the quotes in minutes or memoranda. The purchasing agent shall purchase the petroleum products from the lowest responsible and responsive offeror, taking into account the price change of the current supplier and the price quotes of the other responsible and responsive offerors."

49 CFR 18.35 states:

"Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, 'Debarment and Suspension.'"

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 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."

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(Continued)

*Cause*

Management did not develop a system of internal controls that segregated key functions.

*Effect*

The failure to establish internal controls enabled material noncompliance to go undetected. Non-compliance with the grant agreement or the compliance requirements could have resulted in the loss of federal funds to the City.

*Questioned Costs*

There were no questioned costs identified.

*Recommendation*

We recommended that the City's management establish controls to ensure compliance and to comply with the Procurement and Suspension and Debarment requirements of the program.

*Views of Responsible Officials*

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



# MICHIGAN CITY INDIANA

Office of City Controller - Richard Murphy, City Controller - Phone: 219.873.1404 - Fax: 219.873.1542 - email: rmurphy@emichigancity.com

## CORRECTIVE ACTION PLAN

**FINDING 2015-003** (Auditor Assigned Reference Number)

Contact Person Responsible for Corrective Action: Richard Murphy  
Contact Phone Number: (219) 873-1404

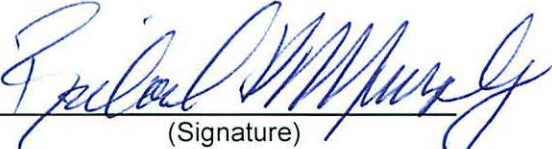
Views of Responsible Official: The controller's office understands the comment and will implement the corrective action plan to resolve the issue.

Description of Corrective Action Plan:

A policy and procedure will be developed for the procurement of diesel fuel and unleaded gasoline. The procedure will outline the process of purchasing the fuel. The policy will include the procedure for purchasing as well as the determination if the vendors have been suspended or debarred from participation in federal programs. This policy will be approved by the Board of Public Works and Safety at the beginning each year.

Anticipated Completion Date:

This policy and procedure was passed by Resolution 2809 on March 21, 2016.

  
(Signature)

City Controller \_\_\_\_\_  
(Title)

December 1, 2016 \_\_\_\_\_  
(Date)

RON MEER – MAYOR

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CENTRAL SERVICES  
CITY OF MICHIGAN CITY  
EXIT CONFERENCE

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