

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

SUPPLEMENTAL COMPLIANCE REPORT

OF

CITY OF HOBART

LAKE COUNTY, INDIANA

January 1, 2015 to December 31, 2015



FILED
04/04/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Deborah A. Longer	01-01-12 to 12-31-19
Mayor	Brian Snedecor	01-01-12 to 12-31-19
President of the Board of Public Works and Safety	Brian Snedecor	01-01-12 to 12-31-19
President Pro Tempore of the Common Council	Jerry Herzog Matt Claussen Jerry Herzog	01-01-14 to 12-31-15 01-01-16 to 09-07-16 09-08-16 to 12-31-17



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

This report is supplemental to our audit report of the City of Hobart (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 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 Findings, identified in the above referenced audit report, are included in this report.

Any Corrective Action Plan for the Federal Findings, incorporated within this report, was not verified for accuracy.

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

February 16, 2017

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CLERK-TREASURER
CITY OF HOBART

CLERK-TREASURER
CITY OF HOBART
FEDERAL FINDINGS

FINDING 2015-001 - PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Condition

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA).

There were no segregation of duties over the preparation of the SEFA. One employee was responsible for preparing the SEFA without evidence of a review or approval process.

The City did not have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. The federal expenditures on the SEFA presented for audit were overstated by \$305,497 in total for three grants.

Audit adjustments were proposed, accepted by the City, and made to the SEFA.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

2 CFR section 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 Financial statements...."

2 CFR section 200.510(b) states:

"*Schedule of expenditures of Federal awards*. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

CLERK-TREASURER
CITY OF HOBART
FEDERAL FINDINGS
(Continued)

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within a cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe the significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA 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.

FINDING 2005-002 - 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.

CLERK-TREASURER
CITY OF HOBART
FEDERAL FINDINGS
(Continued)

1. Lack of Segregation of Duties - Receipts: Duties of preparing the deposit and taking the deposit to the bank were performed by separate employees; however, consistent written documentation to verify that these steps were performed by two different employees was not provided.
2. Lack of Segregation of Duties - Financial Close and Reporting: The City had not separated incompatible activities related to the financial close and reporting process. The Clerk-Treasurer prepared the Annual Financial Report, which included the financial activity of all funds and was the basis for the financial statement, and submitted it on the Gateway reporting system website. Written evidence that an adequate oversight or review process had occurred before submission was not provided.
3. Cash - An employee in the Clerk-Treasurer's office prepared the bank reconciliations; however, a separate person did not document a review of the bank reconciliations to indicate adequate oversight or review. The Clerk-Treasurer did begin to document her review of the bank reconciliations in October 2015.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

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An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Cause

Management of the City had not properly implemented the internal control system relating to receipts and cash. Management of the City had not established a proper system of internal control relating to the financial close and reporting process.

Effect

The failure to establish and properly implement controls could have enabled misstatements or irregularities to remain undetected.

Views of Responsible Officials

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

Deborah A. Longer
Clerk-Treasurer

"The Friendly City"

Telephone:
(219)942-1940



The City of Hobart

414 Main Street • Hobart, Indiana 46342

Fax:
(219)942-0505

CORRECTIVE ACTION PLAN

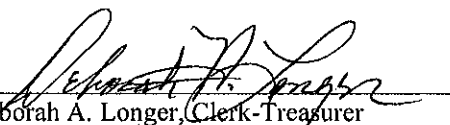
FINDING 2015-001: PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person Responsible for Corrective Action: Deborah Longer, Clerk-Treasurer
Contact Phone Number: (219) 942-1940

The City maintains separate files on all grants applied for and awarded as provided to the Clerk-Treasurer's office. It has been problematic on numerous occasions when found that the Clerk-Treasurer was not supplied with all information related to grant awards and reporting while the designated Employee in Responsible Charge (ERC) for each grant maintained they did comply with the requirements of the grants they monitored and administered. The Administration consistently reminded the ERC's to provide the information but, at the end of the year, when preparing the Schedule of Expenditures of Federal Awards (SEFA), the Clerk-Treasurer continued to find a lack of information or misinformation due to insufficient reporting by the ERC's to the Clerk-Treasurer regarding the grant management.

At the time the 2015 Audit was being conducted, there was insufficient time to implement any correction to this Finding. On February 6, 2017, the Clerk-Treasurer and Mayor met with the Department Heads and instituted a new internal control specifically requiring each ERC to submit quarterly reports to designated staff in the Clerk-Treasurer's office for each grant applied for and/or awarded including any and all expenditures, receipts, quarterly reports and other filings related to the grant(s). It is believed that this additional quarterly step in monitoring the federal award activities throughout the year will allow the Clerk-Treasurer's staff to prepare up-to-date records that accurately reflect the activity of each grant. Using these updated records, the Clerk-Treasurer will then prepare the SEFA for review by each of the ERC's prior to submittal.

Anticipated Completion Date: February 6, 2017

Signed: 
Deborah A. Longer, Clerk-Treasurer

Date: 2/14/17

Deborah A. Longer
Clerk-Treasurer

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CORRECTIVE ACTION PLAN

FINDING 2015-002: INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

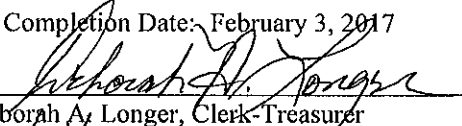
Contact Person Responsible for Corrective Action: Deborah Longer, Clerk-Treasurer
Contact Phone Number: (219) 942-1940

Lack of Segregation of Duties – Receipts: The Clerk-Treasurer's office has, since at least 2004 required that the preparation of the receipts for deposit and banking the deposit be performed by separate employees on a rotating basis. This control is in place to assure that multiple employees are checking the deposits, reconciling them with daily reports from the financial software system and assuring the deposits are accurately and timely made. Written documentation on a daily basis was not specifically noted on each deposit made. At the time the 2015 Audit was being conducted, there was insufficient time to implement any correction to this Finding. In early February, 2017, the Clerk-Treasurer's employees will begin to note with their initials who has prepared each deposit and who takes the deposit to the bank on the daily revenue reports.

Lack of Segregation of Duties – Financial Close and Reporting: The daily operations of the Clerk-Treasurer's office as to financial close and reporting is performed by the various employees of the office who oversee certain areas of specialization (i.e. asset management, accounts payable, debt management, accounts receivable). At the close of the year, the Clerk-Treasurer gathers this information and reviews each part for all funds and prepares the Annual Financial Report for the City. At the time the 2015 Audit was being conducted, there was insufficient time to implement any correction to this Finding. Beginning in January 2017, an employee of the Clerk-Treasurer's office was given editing rights to prepare the Annual Financial Report as to the receipts and disbursements portion. The Clerk-Treasurer, using the information provided by the other employees related to their particular areas of specialization, prepared the other areas of the report, sharing the final reported versions of each section prior to submission with the appropriate contributing employees. The report was also reviewed by the Mayor and the Council President prior to submission.

Cash: As noted, an employee in the Clerk-Treasurer's office prepared bank reconciliations and the review process of each reconciliation is done by the Clerk-Treasurer who documented her review by her initials on the document. In 2015 it was found that some of the reconciliations did not contain a documented review by the Clerk-Treasurer, no initials were found. This oversight was corrected beginning in October 2015 and continues as an internal control.

Anticipated Completion Date: February 3, 2017

Signed: 
Deborah A. Longer, Clerk-Treasurer

Date: 2/14/17

CLERK-TREASURER
CITY OF HOBART
EXIT CONFERENCE

The contents of this report were discussed on February 16, 2017, with Deborah A. Longer, Clerk-Treasurer; Brian Snedecor, Mayor; Jerry Herzog, President Pro Tempore of the Common Council; Josh Huddlestun, Common Council Finance Chairman; Robert B. Fulton, President of the Hobart Sanitary District; and Susan Laba, Deputy Clerk.