

**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, 2016 to December 31, 2016



**FILED**  
12/01/2017



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### SCHEDULE OF OFFICIALS

| <u>Office</u>                                        | <u>Official</u>               | <u>Term</u>                                  |
|------------------------------------------------------|-------------------------------|----------------------------------------------|
| Clerk-Treasurer                                      | Deborah Longer                | 01-01-16 to 12-31-19                         |
| Mayor                                                | Brian Snedecor                | 01-01-16 to 12-31-19                         |
| President of the Board of<br>Public Works and Safety | Brian Snedecor                | 01-01-16 to 12-31-19                         |
| President Pro Tempore of the<br>Common Council       | Matt Claussen<br>Jerry Herzog | 01-01-16 to 09-07-16<br>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, 2016 to December 31, 2016. 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/](http://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

October 17, 2017

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CLERK-TREASURER  
CITY OF HOBART

CLERK-TREASURER  
CITY OF HOBART  
FEDERAL FINDINGS

***FINDING 2016-001***

Subject: Preparation of the Schedule of Expenditures of Federal Awards  
Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is a repeat of Finding 2015-001 from the immediate prior year.

*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).

The City failed to properly review the federal grant information prepared and submitted in the Indiana Gateway for Government Units financial reporting system, which is the source for the SEFA. One employee prepared the grant information for the federal awards with no review in order to detect and correct errors before submission.

*Context*

Due to the lack of controls, the following errors resulted in the understatement of the SEFA by \$293,956:

1. The Equitable Sharing Program was omitted, resulting in the federal expenditures being understated by \$207,064.
2. The Disaster Grants - Public Assistance (Presidentially Declared Disasters) program was omitted, resulting in the federal expenditures being understated by \$91,120.
3. The Highway Safety Cluster grant federal expenditures were overstated by \$228. In addition, the Highway Safety Cluster grant federal expenditures incorrectly listed \$345,701 as Passed-Through to Subrecipients.
4. An expenditure for a thermal imaging camera that was funded by local sources was erroneously included resulting in the federal expenditures being overstated by \$4,000.
5. Seven federal programs did not have the correct program title.

Audit adjustments were proposed, approved 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:

CLERK-TREASURER  
CITY OF HOBART  
FEDERAL FINDINGS  
(Continued)

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

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

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

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; . . .

- Accurate and timely recording of transactions. . . ."

2 CFR 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 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:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the 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.

CLERK-TREASURER  
CITY OF HOBART  
FEDERAL FINDINGS  
(Continued)

- (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 that 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*

The failure to establish and properly implement internal controls enabled material misstatements to go undetected. The SEFA contained the errors identified in the *Context*.

*Recommendation*

We recommended that the City's management establish controls to ensure accurate reporting of the SEFA.

*Views of Responsible Officials*

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

**FINDING 2016-002**

Subject: Receipts

Audit Finding: Material Weakness

*Repeat Finding*

This is a partial repeat of Finding 2015-002 from the immediate prior year.

*Condition*

There was a deficiency in the internal control system of the City related to receipts. Duties of preparing the deposit and taking the deposit to the bank were performed by separate employees; however, written documentation to verify the segregation of these procedures was not provided.

*Context*

The lack of controls over receipt was a systemic issue, which occurred throughout the audit period.

CLERK-TREASURER  
CITY OF HOBART  
FEDERAL FINDINGS  
(Continued)

*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. . . ."

*Cause*

Management of the City had not established a proper system of internal controls.

*Effect*

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

*Recommendation*

We recommended that the City implement a system of internal controls to ensure that adequate documentation of the segregation of duties over the receipt process is maintained.

*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

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(219)942-0505



# *The City of Hobart*

414 Main Street • Hobart, Indiana 46342

## CORRECTIVE ACTION PLAN

### FINDING 2016-001

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 2016 Annual Report was prepared and issued, 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. The audit adjustments proposed by the State Board of Accounts and approved by the City have been made to the SEFA for 2016.

Anticipated Completion Date: October 13, 2017

Signed: \_\_\_\_\_

Deborah A. Longer, Clerk-Treasurer

Date: \_\_\_\_\_

10/13/17

**Deborah A. Longer**  
Clerk-Treasurer

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## CORRECTIVE ACTION PLAN

### FINDING 2016-002

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

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 2016 Audit was being conducted, there was insufficient time to implement any correction to this Finding on the prior year records. In early February, 2017, the Clerk-Treasurer's employees began to note with their initials who has prepared each deposit and who takes the deposit to the bank on the daily revenue reports as documentation to verify the segregation of these procedures.

Anticipated Completion Date: October 13, 2017

Signed: \_\_\_\_\_

Deborah A. Longer, Clerk-Treasurer

Date: \_\_\_\_\_

10/13/17

CLERK-TREASURER  
CITY OF HOBART  
EXIT CONFERENCE

The contents of this report were discussed on October 17, 2017, with Deborah Longer, Clerk-Treasurer; Brian Snedecor, Mayor; Jerry Herzog, President Pro Tempore of the Common Council; Monica Wiley, Common Council member; and Robert Fulton, President of the Hobart Sanitary District.

COMMON COUNCIL  
CITY OF HOBART

COMMON COUNCIL  
CITY OF HOBART  
FEDERAL FINDING

***FINDING 2016-003***

Subject: Highway Planning and Construction - Suspension and Debarment  
Federal Agency: Department of Transportation  
Federal Program: Highway Planning and Construction  
CFDA Number: 20.205  
Federal Award Number and Year (or Other Identifying Number): EDS #A305-5-203  
Pass-Through Entity: Indiana Department of Environmental Management  
Compliance Requirement: Procurement and Suspension and Debarment  
Audit Findings: Material Weakness, Other Matters

*Repeat Finding*

This is not a repeat finding from the immediate prior year.

*Condition*

The City had not established an effective internal control system related to the grant agreement and the Suspension and Debarment requirements of the Procurement and Suspension and Debarment compliance requirement.

The City did not have a Suspension and Debarment policy or procedures in place in order to ensure compliance with requirements regarding verification that vendors were not suspended or debarred from participation in federal programs before entering into a contract.

*Context*

This is a systemic problem as the City did not have a Suspension and Debarment policy in place. Neither of the two vendors paid from the grant were verified.

*Criteria*

2 CFR 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). . . ."

COMMON COUNCIL  
CITY OF HOBART  
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 the EPLS; 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 to ensure compliance with the Suspension and Debarment requirements of the Procurement and Suspension and Debarment compliance requirement.

*Effect*

The failure to establish an effective internal control system enabled noncompliance to go undetected. Noncompliance with the grant agreement and the compliance requirement could have resulted in 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 comply with the Procurement and Suspension and Debarment compliance requirement.

*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

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## CORRECTIVE ACTION PLAN

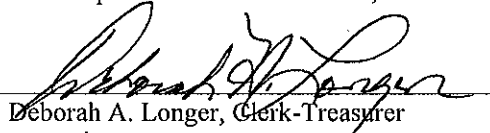
### FINDING 2016-003

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

#### Procurement and Suspension and Debarment

At the time the 2016 Audit was being conducted, there was insufficient time to implement any correction to this Finding on the prior year procurements. The City will implement a procedure to verify that vendors are not suspended or debarred from participation in federal programs before entering into a contract. Included in this procedure will be an internal review of exclusions through the Excluded Parties List System (EPLS) via the System for Award Management website (SAM.gov) to verify current vendor status. Printed status reports and findings will be included in appropriate grant files and provided for consideration by the appropriate Board prior to execution of contracts. Additionally, vendors will be requested to provide verification of their current status when presenting contracts for consideration.

Anticipated Completion Date: October 13, 2017

Signed:   
Deborah A. Longer, Clerk-Treasurer

Date: 10/13/17

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CITY OF HOBART  
EXIT CONFERENCE

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